2005

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 40-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2005 **Commission File Number: 1-8481**

BCE Inc.

(Exact name of Registrant as specified in its charter)

Canada
(Jurisdiction of incorporation or organization)

4813
(Primary Standard Industrial Classification Code Number (if applicable))

98-0134477
(I.R.S. Employer Identification Number (if applicable))

1000 rue de La Gauchetière Ouest, Bureau 3700, Montréal, Québec, Canada H3B 4Y7, (514) 397-7000
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, N.Y. 10011, (212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of agents for service in the United States)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:

þ Annual information form þ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2005, 927,318,916 common shares and 66,000,000 First Preferred Shares were issued and outstanding.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

YES: o NO: þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES: þ NO: o

PRIOR FILINGS MODIFIED AND SUPERSEDED

BCE Inc.'s annual report on Form 40-F for the year ended December 31, 2005, at the time of filing with the U.S. Securities and Exchange Commission (the "SEC" or "Commission"), modifies and supersedes all prior documents filed pursuant to Sections 13, 14 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any registration statement or prospectus filed pursuant to the Securities Act of 1933 which incorporates by reference such annual report on Form 40-F. Other than BCE Inc.'s Annual Information Form for the year ended December 31, 2005 (the "AIF") included herein, and BCE Inc.'s annual audited consolidated financial statements for the year ended December 31, 2005 and related management's discussion and analysis of financial condition and results of operations, incorporated by reference herein, no other information from the Exhibits attached hereto is to be incorporated by reference in a registration statement or prospectus filed pursuant to the Securities Act of 1933.

ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

A. Annual Audited Consolidated Financial Statements

For BCE Inc.'s annual audited consolidated financial statements for the year ended December 31, 2005 (the "Financial Statements"), including the auditor's report with respect thereto, see pages 60 to 101 and part of page 60, respectively, of the Bell Canada Enterprises 2005 Annual Report to shareholders attached hereto as Exhibit 99.1, which pages are incorporated herein by reference. See Note 28 of the Notes to the Financial Statements on pages 98 to 101 of the Bell Canada Enterprises 2005 Annual Report to shareholders, reconciling the significant differences between Canadian and United States generally accepted accounting principles.

The above referenced auditor's report is expressed in accordance with standards of reporting generally accepted in Canada which do not require a reference to changes in accounting principles in the auditor's report when the changes are properly accounted for and adequately disclosed in the financial statements. In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the financial statements, such as the changes described in Note 1 to the Financial Statements, or when there is a retroactive restatement such as described in Note 1 to the Financial Statements.

B. Management's Discussion and Analysis

For management's discussion and analysis of financial condition and results of operations, see pages 2 to 59 of the Bell Canada Enterprises 2005 Annual Report to shareholders attached hereto as Exhibit 99.1, which pages are incorporated herein by reference.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this annual report on Form 40-F, an evaluation was carried out by BCE Inc.'s management, under the supervision, and with the participation, of BCE Inc.'s President and Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of BCE Inc.'s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the CEO and CFO concluded that such disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to BCE Inc. and its consolidated subsidiaries would be made known to them by others within those entities.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2005, there were no changes in BCE Inc.'s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, BCE Inc.'s internal control over financial reporting.

AUDIT COMMITTEE FINANCIAL EXPERT

BCE Inc.'s board of directors has determined that at least one of the members of the audit committee, being the Chair of the audit committee, Mr. T.C. O'Neill, is qualified as "audit committee financial expert", and that all members of the audit committee are independent under the listing standards of the New York Stock Exchange.

CODE OF ETHICS

All of BCE Inc.'s employees, directors and officers must follow the Bell Canada Enterprises Code of Business Conduct (the "Code of Conduct"), which provides guidelines for ethical behaviour. The Code of Conduct includes additional guidelines for BCE Inc.'s CEO, CFO, Controller and Treasurer. The Code of Conduct is available in the governance section of BCE Inc.'s website at www.bce.ca.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Auditor's fees

The table below shows the fees that Deloitte & Touche LLP ("Deloitte & Touche"), BCE Inc.'s external auditor, billed to BCE Inc. and its subsidiaries for various services for each year in the past two fiscal years.

	2005	2004
	(Can. $ millions)	
Audit fees	**12.2**	11.4
Audit-related fees	**1.9**	3.1
Tax fees	**1.4**	1.9
Other fees	—	—
Total	**15.5**	16.4

Audit fees

These fees include professional services provided by the external auditor for the review of the interim financial statements, statutory audits of the annual financial statements, the review of prospectuses, the review of financial accounting and reporting matters, other regulatory audits and filings and translation services.

Audit-related fees

These fees relate to non-statutory audits, *Sarbanes-Oxley Act* initiatives, due diligence, pension plan audits and the review of financial accounting and reporting matters.

Tax fees

These fees include professional services for administering compliance with our conflict of interest policy for senior management, tax compliance, tax advice and assistance with tax audits and appeals . Since October 2005, the external auditor no longer provides services with respect to compliance with our conflict of interest policy for senior management.

Other fees

These fees include any other fees for permitted services not included in any of the above-stated categories.

Auditor independence policy

BCE Inc.'s auditor independence policy is a comprehensive policy governing all aspects of BCE Inc.'s relationship with the external auditor, including:

- establishing a process for determining whether various audit and other services provided by the external auditor affect its independence;
- identifying the services that the external auditor may and may not provide to BCE Inc. and its subsidiaries;
- pre-approving all services to be provided by the external auditor of BCE Inc. and its subsidiaries; and
- establishing a process outlining procedures (as part of a separate policy) when hiring current or former personnel of the external auditor in a financial oversight role to ensure auditor independence is maintained.

In particular, the policy specifies that:

- the external auditor cannot be hired to provide any services falling within the prohibited services category, such as bookkeeping, financial information system design and implementation and legal services;
- for all audit or non-audit services falling within the permitted services category (such as prospectus work, due diligence and non-statutory audits), a request for approval must be submitted to the audit committee by the CFO prior to engaging the auditors;
- specific permitted services however are pre-approved quarterly by the audit committee and consequently only require approval by the CFO prior to engaging the external auditor; and
- at each regularly scheduled audit committee meeting, a consolidated summary of all fees paid to the external auditor by service type is presented. This summary includes a breakout of fees incurred within the pre-approved amounts.

The Auditor Independence Policy is available in the governance section of BCE Inc.'s website at www.bce.ca.

In 2005, BCE Inc.'s audit committee did not approve any audit-related, tax or other services pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

Please see the sections entitled "Off-Balance Sheet Arrangements" and "Derivative Instruments" of BCE Inc.'s management's discussion and analysis of financial condition and results of operations (which is incorporated by reference in BCE Inc.'s AIF) and Notes 10, 21 and 26, entitled "Accounts Receivable", "Financial Instruments" and "Guarantees", respectively, of the Financial Statements, all contained in the Bell Canada Enterprises 2005 Annual Report to shareholders attached hereto as Exhibit 99.1, for a discussion of off-balance sheet arrangements.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Please see the section entitled "Contractual Obligations" of BCE Inc.'s management's discussion and analysis of financial condition and results of operations (which is incorporated by reference in BCE Inc.'s AIF), contained in the Bell Canada Enterprises 2005 Annual Report to shareholders attached hereto as Exhibit 99.1, for a tabular disclosure and discussion of contractual obligations.

IDENTIFICATION OF THE AUDIT COMMITTEE

BCE Inc. has a separately designated standing audit committee established in accordance with section 3(a)(58) (A) of the Exchange Act. BCE Inc.'s audit committee is comprised of five independent members: Mr. T.C. O'Ne ill (Chair), Mr. A. Bérard, Ms. J. Maxwell, Mr. R.C. Pozen and Mr. V.L. Young.

UNDERTAKING

BCE Inc. undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file this annual report on Form 40-F arises; or transactions in said securities.

WEB SITE INFORMATION

Notwithstanding any reference to BCE Inc.'s website on the World Wide Web in the AIF or in the documents attached as Exhibits hereto, the information contained in BCE Inc.'s website or any other site on the World Wide Web referred to in BCE Inc.'s website is not a part of this Form 40-F and, therefore, is not filed with the Commission.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

BCE Inc. has made in the documents filed as part of this annual report on Form 40-F, and from time to time may otherwise make, forward - looking statements and related assumptions concerning its operations, economic performance and financial matters. BCE Inc. is under no duty to update any of these forward-looking statements or related assumptions. Actual results or events could differ materially from those set forth in, or implied by, the forward-looking statements and the related assumptions due to a variety of factors. Reference is made to the section entitled "About Forward-Looking Statements" on page 3 of the AIF and to the section entitled "Assumptions Made in the Preparation of Forward-Looking Statements and Risks That Could Affect Our Business and Results" on pages 38 to 50 of the AIF for a discussion of certain of such assumption and factors. Reference is also made to the various assumptions and risk factors discussed throughout BCE Inc.'s management's discussion and analysis of financial condition and results of operations (which is incorporated by reference in BCE Inc.'s AIF), contained in the Bell Canada Enterprises 2005 Annual Report to shareholders attached hereto as Exhibit 99.1.

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BCE INC.
FOR THE YEAR ENDED DECEMBER 31, 2005
MARCH 1, 2006



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ABOUT THIS ANNUAL INFORMATION FORM

This Annual Information Form (AIF) contains important information that will help you make informed decisions about investing in BCE Inc. It describes the company and its operations, its prospects, risks and other factors that affect its business.

In this AIF, *we, us, our* and *BCE* mean BCE Inc., its subsidiaries and joint ventures. Bell Canada, Aliant Inc. (Aliant) and their subsidiaries and joint ventures are referred to as the Bell Canada companies.

All dollar figures are in Canadian dollars, unless stated otherwise. The information in this AIF is as of March 1, 2006, unless stated otherwise, and except for information in documents incorporated by reference that have a different date.

DOCUMENTS INCORPORATED BY REFERENCE

The document in the table below contains information that is incorporated by reference in this AIF.

DOCUMENT	WHERE IT IS INCORPORATED IN THIS AIF
BCE Inc. 2005 annual report — *Management's discussion and analysis,* pages 2 to 59	*Management's discussion and analysis,* page 50

TRADEMARKS

The table below is a list of our trademarks that are referred to and used as such in this AIF and their owners.

OWNER	TRADEMARK	
Aliant Inc.	Aliant Aliant Telecom	
BCE Inc.	BCE	
Bell Canada	Rings & head design Bell Canada Enterprises corporate logo Bell Bell Mobility Bell World Emily Espace Bell	GoTrax Kidsmania Seek & Find Sympatico Sympatico.ca 10-4 & design
Bell ExpressVu Limited Partnership	ExpressVu	
Bell Globemedia Publishing Inc.	Canada's National Newspaper Globeandmail.com The Globe and Mail	
Bell Mobility Inc.	Mobile Browser	
CTV Inc.	CTV CTV Newsnet	CTV Travel The Comedy Network & design
CTV Television Inc.	ROB TV TALK TV	
Solo Branding Inc.	Solo Solo Mobile	
Telesat Canada	Anik Nimiq Telesat	
The Sports Network Inc.	TSN RDS RIS Info Sports	

Any other trademarks, or corporate, trade or domain names used in this AIF are the property of their owners. We believe that our trademarks are very important to our success. Our exclusive trademark rights are perpetual provided that their registrations are timely renewed and that the trademarks are used in commerce by us or our licensees. We take appropriate measures to protect, renew and defend our trademarks. We also spend considerable time and resources overseeing, registering, renewing, licensing and protecting our trademarks and prosecuting those who infringe on them. We take great care not to infringe on the intellectual property and trademarks of others.

ABOUT FORWARD-LOOKING STATEMENTS

A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as *anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target* and *will*.

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the company's future prospects and make informed investment decisions.

This AIF contains forward-looking statements about BCE's objectives, plans, strategies, financial condition, results of operations, cash flows and businesses. These statements are forward-looking because they are based on our current expectations, estimates and assumptions about the markets we operate in, the Canadian economic environment and our ability to attract and retain customers and to manage network assets and operating costs. All such forward-looking statements are made pursuant to the 'safe harbor' provisions of the *United States Private Securities Litigation Reform Act of 1995* and of any applicable Canadian securities legislation, including the *Securities Act of Ontario*. It is important to know that:

• **unless otherwise indicated, forward-looking statements in this AIF describe our expectations at March 1, 2006.**

• our actual results could differ materially from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize, and accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

• except as otherwise indicated by BCE, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. Such statements do not, unless otherwise specified by BCE, reflect the impact of dispositions, sales of assets, monetizations, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. The financial impact of these transactions and non-recurring and other 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.

• we disclaim any intention and assume no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

A number of assumptions were made by BCE in making forward-looking statements in this AIF, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions and assumptions about transactions. Certain factors that could cause results or events to differ materially from our current expectations include, among others, our ability to implement our strategies and plans, our ability to implement the changes required by our strategic direction, the intensity of competitive activity and the ability to achieve customer service improvement while significantly reducing costs. Assumptions made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed throughout this AIF and, in particular, in *Assumptions made in the preparation of forward-looking statements and risks that could affect our business and results*.

ABOUT BCE

BCE is Canada's largest communications company. Our primary focus is Bell Canada, which encompasses our core business operations and represents the largest component of our business. Bell Canada is the nation's leading provider of wireline and wireless communications services, Internet access, data services and video services to residential and business customers. We report Bell Canada's results of operations in four segments. Each reflects a distinct customer group: *Residential*, *Business, Aliant,* and *Other Bell Canada*. All of our other activities are reported in the *Other BCE* segment. Our reporting structure reflects how we manage our business and how we classify our operations for planning and measuring performance.

In 2005, we had consolidated operating revenues of $19.1 billion. We had total assets of $40.6 billion and approximately 60,000 employees at December 31, 2005.

The table below shows the operating revenues that each segment contributed to total operating revenues for the year ended December 31, 2005.

OPERATING REVENUES *(in $ millions)*	
Residential	$ 7,599
Business	$ 6,120
Aliant	$ 2,097
Other Bell Canada	$ 1,958
Inter-segment eliminations — Bell Canada	$ (524)
Bell Canada	$17,250
Other BCE	$ 2,093
Inter-segment eliminations — other	$ (238)
Total operating revenues	$19,105

The *Residential* segment (formerly the Consumer segment) provides local telephone, long distance, wireless, Internet access, video and other services to Bell Canada's residential customers, mainly in Ontario and Québec. Wireless services are also offered in Western Canada and video services are provided nationwide.

Local telephone and long distance services are sold under the Bell brand, wireless services through Bell Mobility Inc. (Bell Mobility), Internet access under the Sympatico brand and video services through Bell ExpressVu Limited Partnership (Bell ExpressVu) and Bell Canada.

The *Business* segment provides local telephone, long distance, wireless, data (including Internet access), and other services to Bell Canada's large enterprise (Enterprise) customers and small and medium-sized businesses (SMB) in Ontario and Québec, as well as to business customers in Western Canada through Bell West, our division offering competitive local exchange carrier (CLEC) services in Alberta and British Columbia.

In 2005, Bell Canada acquired a number of small, specialized service companies, allowing us to broaden our product suite of information and communications technology (ICT) solutions (or value-added services (VAS)) for both Enterprise and SMB customers.

The *Business* segment also reflects the retail portion of the operations of 360 networks Corporation (360 networks) acquired in November 2004 and operating in Western Canada as the Group Telecom unit within Bell Canada.

The *Aliant* segment provides local telephone, long distance, wireless, data (including Internet access), and other services to residential and business customers in Atlantic Canada, and represents the operations of our subsidiary, Aliant. At December 31, 2005, Bell Canada owned 53% of Aliant. The remaining 47% was publicly held.

The *Other Bell Canada* segment includes Bell Canada's Wholesale business, and the financial results of Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel) and Northwestel Inc. (Northwestel). Our Wholesale business provides various access and network services to other resale or facilities-based providers of local, long distance, Internet, data and other telecommunications services. Télébec, NorthernTel and Northwestel provide telecommunications services to less populated areas of Québec, Ontario and Canada's northern territories. At December 31, 2005, Bell Canada indirectly owned 100% of Northwestel and approximately 63% of Télébec and NorthernTel. Bell Nordiq Income Fund owned the remaining 37% of Télébec and NorthernTel.

On March 7, 2006, BCE Inc. and Aliant announced their intention to create a new regional telecommunications service provider in the form of an income trust which would combine Bell Canada's regional wireline operations with Aliant's wireline operations. The new trust would also own Bell Canada's 63.4% interest in NorthernTel and Télébec indirectly held through Bell Nordiq Group Inc., an indirect wholly-owned subsidiary of Bell Canada.

By combining these assets, we will create a new regional telecommunications service provider of significant scale and scope that brings a strong focus on customer service and regional needs. The new trust will be controlled by BCE and will remain integral to Bell Canada's operations, ensuring that we retain control of core assets in the most capital efficient way.

The new trust, which will be headquartered in Atlantic Canada, is expected to own approximately 3.4 million local access lines, have approximately 400,000 high-speed Internet subscribers in six provinces, and manage the provision of all wireline, legacy data and Internet products for all residential and business customers located in its territory. The transition to the trust will be seamless for customers as products and services will continue to be sold under the Bell and Sympatico brands within the trust's operating territory in Ontario and Québec and under the Aliant and DownEast brands in Atlantic Canada.

At the same time, in partial exchange for its contribution to a subsidiary of the trust, Bell Canada will acquire Aliant Mobility and Aliant's DownEast Communications retail outlets. Furthermore, approximately $1.25 billion of Bell Canada debt will effectively be transferred to the trust.

Upon closing, BCE will hold a 73.5% indirect interest in the trust, which it expects to reduce to approximately 45% through a distribution of trust units to holders of BCE Inc. common shares. At closing, Aliant's minority shareholders will exchange their common shares for trust units, retaining a 26.5% interest in the new trust. Bell Nordiq Income Fund will continue to trade and operate independently.

BCE plans to establish a governance structure for the proposed income trust in line with comparable current income trust precedents, and will control and consolidate the financial results of the new trust. BCE will retain the ability to nominate a majority of the board of trustees of the trust and of the board of directors of the operating entities of the trust as long as it owns a 30 per cent or more interest in the trust. Also, BCE will have the ability to veto certain actions of the new trust and its operating entities as long as it owns a 20 per cent or more interest in the new trust. At closing, Bell Canada and the trust will enter into a number of outsourcing and commercial agreements pursuant to which Bell Canada will support the operations of the trust. Similar agreements will be entered into between the trust and Bell Canada to support Bell Canada's wireless operations in Atlantic Canada. The transaction is expected to close as early as the third quarter of 2006 but only once all closing conditions are satisfied and all necessary approvals and consents are obtained.

The *Other BCE* segment includes the financial results of our media and satellite businesses, as well as the costs incurred by our corporate office. This segment includes Bell Globemedia Inc. (Bell Globemedia) and Telesat Canada (Telesat).

Bell Globemedia provides information and entertainment services to Canadian customers and access to distinctive Canadian content. It includes CTV Inc. (CTV), Canada's leading private broadcaster, and The Globe and Mail, Canada's leading national newspaper. At December 31, 2005, BCE Inc. owned 68.5% of Bell Globemedia. The Woodbridge Company Limited (Woodbridge) and an affiliate owned the remaining 31.5%. On December 2, 2005, BCE Inc. announced a transaction in which it has agreed to sell 20% of Bell Globemedia to Ontario Teachers Pension Plan (Teachers), 20% to Torstar Corporation (Torstar) and an additional 8.5% to Woodbridge increasing the stake of Woodbridge and its affiliate to 40%. Following completion of the transaction BCE Inc. will retain a 20% interest in Bell Globemedia, which will be accounted for in our results using the equity method of accounting. The transaction, which is subject to a number of approvals and closing conditions, including approval by the Canadian Radio-television and Telecommunications Commission (CRTC) and the Competition Bureau, is expected to close in the third quarter of 2006.

Telesat is a pioneer in satellite communications and systems management and is an experienced consultant in establishing, operating and upgrading satellite systems worldwide. BCE Inc. owns 100% of Telesat. On February 1, 2006, BCE Inc. announced its intention to implement a recapitalization of Telesat and launch a public offering of a minority stake in Telesat in the second half of 2006(1).

(1) The disclosure in this AIF relating to Telesat does not constitute an offer to sell, or the solicitation of any offer to buy, any securities.

On February 1, 2006, BCE Inc. also announced its plan to repurchase 5% of its outstanding common shares through a normal course issuer bid. BCE Inc. has filed its final notice of intention to make a normal course issuer bid with the Toronto Stock Exchange (TSX), which allows it to purchase for cancellation up to 46,000,000 of its common shares, representing approximately 5% of BCE Inc.'s 927,321,825 common shares outstanding as of the close of the market on January 16, 2006. Purchases of the common shares will be carried out through the TSX and/or the New York Stock Exchange (NYSE) and will be made in accordance with the requirements of such exchanges. Purchases of common shares are permitted to be made from time to time, at market prices, during the period starting February 3, 2006, and ending no later than February 2, 2007.

BCE Inc. was incorporated in 1970 and was continued under the *Canada Business Corporations Act* in 1979. It is governed by a Certificate and Articles of Amalgamation dated August 1, 2004.

BCE Inc.'s head and registered offices are at 1000, rue de La Gauchetière Ouest, Bureau 3700, Montréal, Québec H3B 4Y7.

BCE Inc.'s auditor is Deloitte & Touche LLP.

OUR STRATEGIC PRIORITIES

We continued to experience profound changes in our traditional telephone business in 2005. This was driven primarily by the ongoing shift to Internet Protocol (IP) and wireless technologies and new competitive challenges due to the emergence of cable telephony.

Our strategy is to deliver unrivalled integrated communication services to customers, efficiently and cost effectively. Over the past two years, we have laid the operational foundations for the transformation of the company by returning Bell Canada to its core communications business. We have also made significant progress on our three key pillars that support our strategy:

1. Enhance the customer experience by providing superior products and services that build loyalty

2. Provide abundant and reliable bandwidth to enable the delivery of next-generation services

3. Create next-generation services to drive ongoing profitable growth.

Advancing this strategy requires us to transform our cost structure and the way that we serve our customers. These are the guiding principles at the core of Galileo, our company-wide program designed to save costs by simplifying and enhancing the customer experience. Resetting the cost base should allow us to expand our growth services in the future and drive profitability as we face ongoing erosion of our traditional voice and data businesses. In transforming the cost structure, we are developing a new financial foundation that aims to improve margins, increase profitability and generate higher levels of free cash flow, creating value for all our stakeholders. We have outlined four operating priorities for 2006 to help us achieve this objective:

1. *Service* — we are determined to ensure consistently high levels of service, which should lead to corresponding high levels of customer loyalty

2. *Customer retention* — we are focusing our retention efforts on high-value customers and households with multiple products

3. *Growth* — we are growing next-generation services revenue with the objective that they will represent the majority of Bell Canada's revenues by the end of 2006

4. *Cost* — we are effectively resetting the cost base and developing new sourcing and process redesign initiatives in order to achieve recurring cost savings.

In 2005, we made significant progress in building each of our three key strategic pillars.

1. Enhancing customer experience by providing superior products and services that build loyalty

At the end of 2005, over 22% of the total households in our Ontario and Québec footprint subscribed to three or more products (a combination of local wireline, Internet, video and long distance services). We believe our multi-product household strategy is effective in fostering customer loyalty and minimizing network access services (NAS) losses to the competition.

We continued to migrate customers in our Residential segment to our One Bill platform. At the end of 2005, 2.3 million customers were enjoying the benefits of a single bill for their wireline, Internet, and video services, representing more than a two-fold increase since the end of 2004. Reducing the number of bills not only improves the customer experience, but also lowers costs since we issue fewer invoices. At the end of the year, we started migrating Bell Mobility customers who already receive a single invoice for their other Bell Canada services to One Bill.

We launched two initiatives to enhance customer support for our Sympatico Internet customers:

- Emily, an online, virtual customer service agent who interacts with customers needing help
- Internet Care, an online and phone support service for popular Internet-related products.

We began the rollout of OrderMax, our order entry tool that allows customers to order any Bell Canada product from any channel, through our customer service agents. As at the end of 2005, over 50% of our customer service agents had access to the OrderMax tool, with rollout continuing in 2006.

We launched the beta site of our new Bell.ca website. The new website provides customers with:

- a simplified and consistent page layout
- one process for shopping for any or all of our products
- an improved search engine
- easy access to online bills.

We continued to make progress on moving our core traffic to a national IP multi-protocol label-switching (IP-MPLS) network. At the end of 2005, 78% of the migratable traffic on our core network was IP-based, exceeding our year-end target of 75%.

As part of our shift to IP, we continued the process of rationalizing our legacy data services and stopped selling 28 services in 2005. We have discontinued 47 legacy data services since we started this initiative in 2004.

The move to IP continued in 2005 with 57 Enterprise customers contracted to implement IP virtual private networks (IP-VPN), bringing the total number of Enterprise customers implementing IP-VPN networks to 143.

At the end of 2005, 656 Enterprise customers were enrolled in Service Promise, our commitment to provide customers with a clearly defined and consistent level of service for delivering connectivity services.

In 2006, we intend to continue improving service and enhancing the customer experience. In particular we plan to:

• ensure consistency of service to all of our customers by improving our service provisioning and assurance both in our call centres and in our field operations

• offer the simplicity of a one-contact approach through initiatives such as One Bill and on-line self-serve tools that allow problems to be registered, ticketed and tracked

• deliver improved service commitments and service levels by significantly reducing the number of missed appointments because of process issues, and by shortening repair times

• offer an end-to-end service desk for our Enterprise customers that includes both connectivity and ICT services.

2. Deliver abundant bandwidth to enable next-generation services

We continued our rollout of fibre-to-the-node (FTTN) by deploying another 1,672 neighbourhood nodes in 2005. This increased the total number to 2,048, exceeding our objective to deploy more than 2,000 nodes by the end of the year.

We launched Canada's first Evolution, Data Optimized (EVDO) wireless data network with service available in Montréal, Toronto, Vancouver, Calgary and Edmonton. EVDO enables a new generation of sophisticated wireless data solutions, and increases the speed and potential for current tools such as e-mail, file downloads, instant messaging, streaming video and games.

We announced an alliance with Rogers Communications Inc. (Rogers) to jointly build and manage a national wireless broadband network through the Inukshuk joint venture (Inukshuk). Inukshuk will give subscribers wireless access to the Internet and enable a host of voice, video streaming and data applications from wherever the service is available. The network footprint is expected to reach more than two-thirds of Canadians in less than three years, covering over 40 cities and approximately 50 rural and remote communities that are not currently served.

In 2006, we will continue to expand the reach and speed of Digital Subscriber Line (DSL) service through our FTTN rollout, which will enable speeds of up to 26 megabits per second (Mbps). At the same time, work will proceed on Inukshuk to build a fixed wireless broadband access network and create a network footprint within three years. We anticipate that by 2008, we will have the capability to provide broadband connections to virtually all of our customers, either through DSL or through our fixed wireless platform. We also plan to implement EVDO across most of our wireless coverage areas.

3. Create next-generation services to drive ongoing profitable growth

Our Residential segment introduced Bell Digital Voice in Toronto and Montréal. The new Voice over Internet Protocol (VoIP) service, which is the first of its kind in Canada, uses existing phone lines to provide customers with advanced Internet-based calling features along with the reliability of Bell Canada's phone network.

Bell Mobility launched a number of applications designed to drive growth, including:

• 10-4, a new service that allows customers to use their cell phones as walkie-talkies to communicate with up to five other users at the push of a button

• True Tones, a monthly service that enables customers to download actual songs and ringtones

• Seek & Find, a wireless location-based system that allows subscribers to locate multiple individuals away from their homes or offices

• MobiTV, a video application that allows customers with specific mobile handsets to access a variety of video channels

• MSN Messenger, an instant messaging service that allows customers to transmit in real-time text messages to other mobile phones or to PCs on their contact list over the Internet.

Bell Mobility also introduced its first handset compatible with Global System for Mobile Communications (GSM) and launched Canada's first flat per-minute rate billing service for global roaming on GSM networks in up to 150 countries.

Bell ExpressVu introduced a number of new products and services, including:

• a dual-tuner, high-definition personal video recorder (HD PVR) that allows customers to pause live television, as well as record, replay, stop, fast forward and fast rewind HD and standard definition programming on up to two TVs in the home through a single receiver.

Our Residential Internet service was enhanced by the introduction of new services at Sympatico, including:

• Sympatico/MSN Video channel, a new service that allows customers to create customized playlists of streaming video clips

• Kidsmania, a new educational online service for children aged 3 to 12, offering more than 50 interactive games and activities.

Our SMB unit launched:

• PC Care and Network Care, two virtual chief information officer (VCIO) solutions that provide software and technical support for customers

• Business IP Voice, a service designed to provide innovative Internet-based technology solutions that deliver business advantages usually only available to large corporations, such as a dedicated, reservation-free conferencing tool and the ability to forward a voice-mail message as an attachment to an e-mail account

• GoTrax, a low-cost remote wireless tracking system that allows assets to be tracked in places where traditional Global Positioning System (GPS) signals do not work.

Our Enterprise unit sold 275,000 IP-enabled lines on customer premises equipment by the end of the year, which is a 90% increase over 2004.

Our Business segment launched Global VoIP solution for Canadian multinationals, a managed IP service that can provide unlimited, international intra-company voice services at a flat rate by interconnecting geographically dispersed customer locations over a virtual private IP network.

In 2006, we plan to introduce EVDO-enabled data applications and other services to our wireless customers, as well as expand our residential broadband services to help customers manage information needs in their home using our Sympatico-MSN portal. We also plan to exploit our IP capability to achieve interoperability between wireless and wireline platforms. In our video unit, we intend to drive future growth through investing in new growth areas, such as IPTV and HD programming, in our goal to become the leader in on-demand television.

In the Business segment, our Enterprise unit will continue its efforts to expand its ICT solutions by focusing on the financial services, health-care and government sectors. We will also strengthen our capabilities in network security. Our SMB unit will continue to focus on being the premium solutions provider for VAS among SMB in Canada with the objective of increasing customers' perception of Bell Canada as their VCIO.

Transforming our cost structure

Overall, our various Galileo initiatives resulted in cost reductions of $524 million in 2005, which was consistent with our run-rate savings target of $500 to $600 million. These cost savings were mainly from:

• The 2004 employee departure program

• lower procurement costs

• call centre efficiencies and optimization initiatives

• eliminating network elements and standardizing core operating processes.

In 2006, we will continue to transform our cost structure to support our operations. Enhancements to the customer experience and cost structure will be gained primarily through a redesign of our processes and increased controls over discretionary spending.

Accordingly, we have broadened our Galileo program for 2006 to address our annual procurement spend of $8.5 billion. Our goal is to transform the supply chain to reduce the amount we spend each year on delivering service to customers.

Galileo will also continue to address process transformation within the company, to lower costs and improve customer experience. Our process transformation initiatives will include:

• continuing to actively encourage customers to adopt new IP-based services

• developing end-to-end process improvements for sales and ordering, installation, billing, collections and maintenance and repair, which will allow us to deliver our products and services more efficiently

• optimizing management support to reduce costs in our corporate and support functions.

OUR CORPORATE STRUCTURE

The table below shows our main subsidiaries, where they are incorporated or registered, and the percentage of voting and non-voting securities or partnership interest that we beneficially own or that we directly or indirectly exercise control or direction over.

We have other subsidiaries, but they have not been included in the table because each represents 10% or less of our total consolidated assets and 10% or less of our total consolidated operating revenues. These other subsidiaries together represented 20% or less of our total consolidated assets and 20% or less of our total consolidated operating revenues at December 31, 2005.

Our corporate structure

SUBSIDIARY	WHERE IS IT INCORPORATED OR REGISTERED	PERCENTAGE OF VOTING SECURITIES OR PARTNERSHIP INTEREST THAT BCE INC. HELD AT DECEMBER 31, 2005 (1)
Bell Canada (2)	Canada	100%
Aliant	Canada	53.2%
Bell Mobility	Canada	100%
Bell ExpressVu (3)	Ontario	100% (4)
Bell Globemedia (3)(5)	Ontario	68.5%

(1) We do not own any outstanding non-voting securities issued by these subsidiaries.

(2) All of the voting securities of Bell Canada are owned by Bell Canada Holdings Inc. (BCH), a wholly-owned subsidiary of BCE Inc.

(3) These subsidiaries represent 10% or less of our total consolidated assets and 10% or less of our total consolidated operating revenues. We have included them to provide a better understanding of our overall corporate structure.

(4) This subsidiary is indirectly wholly-owned by BCE Inc. 52% is indirectly held by Bell Canada.

(5) See Business Highlights — 2005 — Key Acquisitions and Dispositions — Sale of Bell Globemedia Interest.

OUR DIRECTORS AND OFFICERS

At December 31, 2005 BCE Inc.'s directors and officers as a group beneficially owned, directly or indirectly, or exercised control or direction over:

- approximately 1,559,444 or 0.1682% of the common shares of BCE Inc.
- approximately 1,500 or 0.0012% of the common shares of Aliant
- approximately 447 or 0.0011% of the common shares of Bell Canada International Inc. (BCI)
- approximately 6,073 or 0.0186% of the units of Bell Nordiq Income Fund.

Directors

The table below lists BCE Inc.'s directors, where they lived and their current principal occupation on March 1, 2006.

DIRECTORS

NAME AND PROVINCE/STATE AND COUNTRY OF RESIDENCE	DATE ELECTED OR APPOINTED TO THE BCE INC. BOARD	CURRENT PRINCIPAL OCCUPATION
André Bérard, *Québec, Canada*	January 2003	Corporate director
Ronald A. Brenneman, *Alberta, Canada*	November 2003	President and Chief Executive Officer and a director, Petro-Canada (petroleum company), since January 2000
Richard J. Currie,(1) *Ontario, Canada*	May 1995	Chair of the board, BCE Inc. and Bell Canada, since April 2002
Anthony S. Fell,(1) *Ontario, Canada*	January 2002	Chairman of the board, RBC Dominion Securities Limited (investment bank), since December 1999
Donna Soble Kaufman, *Ontario, Canada*	June 1998	Lawyer and corporate director
Brian M. Levitt, *Québec, Canada*	May 1998	Partner and Co-Chair, Osler, Hoskin & Harcourt LLP (law firm), since January 2001
The Honourable Edward C. Lumley,(2) *Ontario, Canada*	January 2003	Vice-Chairman, BMO Nesbitt Burns Inc. (investment bank), since 1991
Judith Maxwell, *Ontario, Canada*	January 2000	Research Fellow, Canadian Policy Research Networks Inc. (non-profit organization conducting research on work, family, health, social policy and public involvement), since February 2006
John H. McArthur, *Massachusetts, U.S.A.*	May 1995	Dean Emeritus, Harvard University Graduate School of Business Administration, since 1995
Thomas C. O'Neill, *Ontario, Canada*	January 2003	Chartered Accountant and corporate director
James A. Pattison,(3) *British Columbia, Canada*	February 2005	Chairman and Chief Executive Officer, The Jim Pattison Group, since 1961
Robert C. Pozen, *Massachusetts, U.S.A.*	February 2002	Chairman of the board, MFS Investment Management (global investment manager), since February 2004
Michael J. Sabia,(1) *Québec, Canada*	October 2002	President and Chief Executive Officer (since April 2002) and a director, BCE Inc., and Chief Executive Officer (since May 2002) and a director, Bell Canada
Paul M. Tellier, *Québec, Canada*	April 1999	Corporate director
Victor L. Young, *Newfoundland and Labrador, Canada*	May 1995	Corporate director

(1) Was a director or executive officer of Teleglobe Inc. (Teleglobe) or certain of its affiliates on, or during the year preceding, May 15, 2002, the date when Teleglobe and certain of its affiliates filed for court protection under insolvency statutes in various countries, including Canada and the United States.

(2) Was a director or executive officer of Air Canada on, or during the year preceding, April 1, 2003, the date when Air Canada filed for court protection under insolvency statutes in Canada and the United States.

(3) Was a director or executive officer of Livent Inc. on, or during the year preceding, November 18 or 19, 1998, the dates when Livent Inc. and its United States subsidiaries filed for court protection under insolvency statutes in Canada and the United States, respectively.

Past occupation

Under BCE Inc.'s by-laws, each director holds office until the next annual shareholder meeting or until his or her successor is elected. All of BCE Inc.'s directors have held the positions listed in the table on the previous page or other executive positions with the same or associated firms or organizations during the past five years or more, except for the people listed in the table below.

DIRECTOR	PAST OCCUPATION
Mr. A. Bérard	Chairman of the board of National Bank of Canada (chartered bank) from March 2002 to March 2004 Chairman of the board and Chief Executive Officer of National Bank of Canada from 1990 to March 2002 and a director of National Bank of Canada from 1985 to March 2004
Mr. R.J. Currie	President of George Weston Limited (food distribution, retail and production company) from 1996 to May 2002 and a director from 1975 to May 2002 President of Loblaw Companies Limited (grocery chain) from 1976 to January 2001 and a director from 1973 to May 2001
Ms. J. Maxwell	President of Canadian Policy Research Networks Inc. from 1995 to January 2006
Mr. T.C. O'Neill	Chief Executive Officer of PricewaterhouseCoopers Consulting (provider of management consulting and technology services) from January 2002 to May 2002 and then Chairman of the board from May 2002 to October 2002 Chief Operating Officer of PricewaterhouseCoopers LLP global organization (professional services firm in accounting, auditing, taxation and financial advisory services) from July 2000 to January 2002 Chief Executive Officer of PricewaterhouseCoopers LLP (accounting firm) in Canada from 1998 to July 2000
Mr. R.C. Pozen	Visiting professor, Harvard Law School from 2002 to August 2004 Vice-chairman of the board of Fidelity Investments from June 2000 to December 2001 President and a director of Fidelity Management and Research Company (provider of financial services and investment resources) from 1997 to June 2001
Mr. P.M. Tellier	President and Chief Executive Officer and a director of Bombardier Inc. (manufacturer of business jets, regional jets and rail transportation equipment) from 2003 to December 2004 President, Chief Executive Officer and a director of Canadian National Railway Company from 1992 to December 2002
Mr. V.L. Young	Chairman of the board and Chief Executive Officer of Fishery Products International Limited (frozen seafood products company) from 1984 to May 2001

Committees of the board

The table below lists the committees of our board of directors and their members.

As a public company, we are required by law to have an audit committee.

COMMITTEE	MEMBERS
Audit	T.C. O'Neill (Chair) A. Bérard J. Maxwell R.C. Pozen V.L. Young
Corporate governance	D. Soble Kaufman (Chair) A. Bérard A.S. Fell The Honourable E. C. Lumley J. H. McArthur
Management resources and compensation	R.J. Currie (Chair) R.A. Brenneman A.S. Fell J.H. McArthur V.L. Young
Pension fund	R.C. Pozen (Chair) B.M. Levitt J.A. Pattison P.M. Tellier

Officers

The table below lists BCE Inc.'s officers, where they lived and the office that they held at BCE Inc. on March 1, 2006.

NAME	PROVINCE AND COUNTRY OF RESIDENCE	OFFICE HELD AT BCE INC.
Michael J. Sabia (1)	Québec, Canada	President and Chief Executive Officer
Alain Bilodeau	Québec, Canada	Senior Vice-President, BCE Inc. and President, BCE Corporate Services
Michael T. Boychuk (1)	Québec, Canada	Senior Vice-President and Treasurer
Karyn A. Brooks	Québec, Canada	Vice-President and Controller
Mark R. Bruneau	Québec, Canada	Executive Vice-President and Chief Strategy Officer
William J. Fox	Ontario, Canada	Executive Vice-President — Communications and Corporate Development
Lib Gibson	Ontario, Canada	Corporate Advisor
Leo W. Houle	Québec, Canada	Chief Talent Officer
Lawson A.W. Hunter	Ontario, Canada	Executive Vice-President and Chief Corporate Officer
Alek Krstajic	Ontario, Canada	Officer — Office of the CEO
Patricia A. Olah	Québec, Canada	Corporate Secretary
Barry W. Pickford	Ontario, Canada	Senior Vice-President — Taxation
Stephen P. Skinner	Québec, Canada	Senior Vice-President — Finance — Bell Canada
Martine Turcotte	Québec, Canada	Chief Legal Officer
Siim A. Vanaselja	Québec, Canada	Chief Financial Officer
Stephen G. Wetmore	Ontario, Canada	Group President — Corporate Performance and National Markets
Mahes S. Wickramasinghe	Ontario, Canada	Senior Vice-President — Corporate Performance and National Markets
Nicholas Zelenczuk	Ontario, Canada	Senior Vice-President — Audit and Risk Management

(1) *Was a director or executive officer of Teleglobe or certain of its affiliates on or during the year preceding May 15, 2002, the date when Teleglobe and certain of its affiliates filed for court protection under insolvency statutes in various countries, including Canada and the United States.*

Past occupation

All of our officers have held their present positions or other executive positions with BCE Inc. or one or more of our subsidiaries during the past five years or more, except for:

• Mr. Bilodeau who was Senior Vice-President, Compensation Practice of AON Consulting (consulting company) before April 2002

• Ms. Brooks who was Vice-President and Controller of Enbridge Inc. (pipeline company) before July 2003

• Mr. Bruneau who was Founder and Chairman Emeritus of Adventis (a strategy and management consultancy to the global telecommunications industry) before December 2004

• Mr. Fox who was Senior Vice-President – Public Affairs of Bombardier Inc. prior to January 2005. He was also Senior Vice-President — Public Affairs of Canadian National (railroad company) before January 2003.

• Ms. Gibson who was Vice-President, Marketing of Worldlinx Telecommunications Inc. (telecommunications company) before February 2001

• Mr. Houle who was Senior Vice-President, Corporate Human Resources of Alcan Inc. (packaging and aluminum company) before June 2001

• Mr. Hunter who was a partner with Stikeman Elliott LLP (law firm) before March 2003

• Mr. Krstajic who was Senior Vice-President, Sales and Marketing of Rogers Cablesystems Limited (cable company) before July 2003.

• Mr. Wickramasinghe who was Senior Vice-President of Canadian Imperial Bank of Commerce (CIBC) (chartered bank) and Chief Financial and Administrative Officer of Amicus Financial (CIBC's e-commerce division) before August 2003. He was also Senior Vice-President and Chief Administrative Officer of CIBC Retail and Small Business Banking from June 2001 to February 2002 and Vice-President Audit & Chief Security Officer of CIBC before June 2001.

• Mr. Zelenczuk who was a Partner, Advisory Services of KPMG LLP before February 2006. He was President and Chief Executive Officer of Deutsche Bank Canada from 1998 to 2001.

OUR EMPLOYEES

The table below shows the number of employees in the BCE group of companies.

MUMBER OF EMPLOYEES AT DECEMBER 31	**2005**	2004	2003
Total	**60,001**	61,739	64,054

Approximately 47% of our employees are represented by unions and are covered by collective agreements.

The following collective agreements were renewed in 2005:

• The collective agreement between the Canadian Telecommunications Employees' Association (CTEA) and Bell Canada, representing approximately 10,000 clerical and associated employees, expired on May 31, 2005. A memorandum of agreement between Bell Canada and the CTEA was signed on June 8, 2005, was submitted to a vote and was ratified by 64.5% of CTEA members who voted. A new four-year collective agreement was signed on July 18, 2005.

• The collective agreement between Entourage Technology Solutions Inc. (Entourage) (since renamed Bell Technical Solutions Inc.) and the Communications, Energy and Paperworkers Union of Canada (CEP) representing approximately 1,400 Ontario technicians expired on September 30, 2004 and the Ontario technicians went on strike on March 24, 2005. On July 5, 2005, negotiations resumed between Entourage and the CEP and a memorandum of agreement was signed on July 10, 2005, was submitted to a vote and ratified by 70% of the Ontario technicians who voted. A new four-year collective agreement was signed on August 8, 2005, which will be in force until May 6, 2009.

• The collective agreement between Entourage and the CEP representing approximately 800 Québec technicians expired on September 30, 2004. A final offer was submitted to a vote and ratified by 80% of the CEP members who voted. A new four-year collective agreement was signed on May 6, 2005.

The following important collective agreements will expire in 2006:

• The collective agreement between the CTEA and Bell Canada, representing approximately 700 communications sales employees will expire on December 31, 2006.

• The collective agreements between the CEP and Expertech Network Installation Inc. (Expertech) representing approximately 275 clerical and 1,300 craft employees will both expire on November 30, 2006.

• The collective agreement between the CTEA and Connexim Inc. representing approximately 200 clerical employees will expire on May 31, 2006.

• The collective agreement between the Teamsters and Télébec representing approximately 160 employees will expire on July 22, 2006.

On January 21, 2005, the CEP filed a single employer application with the Canada Industrial Relations Board (CIRB) concerning Bell Canada, Bell West, Smiston Communications Inc. (Smiston) and GT Group Telecom Services Corporation (Group Telecom) to represent the craft and services employees of Bell West, Smiston and Group Telecom. The parties exchanged written documentation and a pre-hearing conference took place before the CIRB at the end of 2005. The process is following due course with a final decision expected in 2006.

On October 22, 2004, the CTEA filed a single employer application concerning Bell Canada and Bell West with the CIRB, to represent the clerical and communications sales employees of Bell West. The parties exchanged written documentation and a pre-hearing conference took place before the CIRB at the end of 2005. The process is following due course with a final decision expected in 2006.

OUR CAPITAL STRUCTURE

BCE Inc. Securities

The BCE Inc. articles of amalgamation provide for an unlimited number of common shares, an unlimited number of first preferred shares issuable in series, an unlimited number of second preferred shares also issuable in series and an unlimited number of Class B shares. In addition, BCE Inc. has issued debt securities in the form of notes. This section describes BCE Inc.'s securities, the ratings that certain rating agencies have attributed to such securities and the trading of such securities on the TSX.

Debt Securities

BCE Inc. has issued long-term debt securities in the form of Series A, B and C Notes, as summarized in the table below.

Debt securities

	INTEREST RATE	MATURITY	$ MILLIONS
Series A Notes	6.20%	October 30, 2006	300
Series B Notes	6.75%	October 30, 2007	1,050
Series C Notes	7.35%	October 30, 2009	650
Total			2,000

All Series A, B and C Notes issued by BCE Inc. are unsecured. BCE Inc. has the option to redeem the Series B and C Notes (in the principal amount of $1.7 billion) at any time.

BCE Inc. has a shelf prospectus providing for the issue of up to $1.0 billion of medium term notes (MTNs). BCE Inc. has not issued any MTNs under its current shelf prospectus which expires on November 10, 2007.

The indentures governing the Series A, B and C Notes and the MTNs contain certain covenants including, but not limited to, a negative pledge, and certain events of default including, but not limited to, a cross-default with respect to Bell Canada's indebtedness for borrowed money in certain circumstances. The indenture governing the Series A, B and C Notes contains, in particular, a provision stating that in the event BCE Inc. disposes of voting shares of Bell Canada in such a number as to hold, directly or indirectly, less than 75% of the voting rights attaching to the outstanding voting shares of Bell Canada, unless the Series A, B and C Notes have an approved rating from each of certain rating agencies on each day of a rating period, BCE Inc. shall have the obligation to make an offer to purchase all of the Series A, B and C Notes within the five business days following the rating period at 100% of their face value together with accrued and unpaid interest to the purchase date.

BCE Inc. may issue notes under its commercial paper program up to the amount of its supporting committed lines of credit. The total amount of its supporting committed lines of credit available was $284 million at December 31, 2005. BCE Inc. had no commercial paper outstanding at December 31, 2005.

Bell Canada may also issue notes under its own commercial paper program up to the amount of its supporting committed lines of credit. The total amount of Bell Canada's supporting committed lines of credit available was $879 million at December 31, 2005. Bell Canada had $45 million in commercial paper outstanding at December 31, 2005. Bell Canada can also issue up to $400 million Class E notes under its commercial paper program. These notes are not supported by committed lines of credit and may be extended in certain circumstances. Bell Canada had no Class E notes outstanding at December 31, 2005.

BCE Inc. is in compliance with all conditions and restrictions attaching to its debt securities described above.

Share capital

Preferred shares

BCE Inc.'s articles of amalgamation provide for an unlimited number of first preferred shares and second preferred shares. The terms set out in the articles authorize BCE Inc.'s directors to issue the shares in one or more series and to set the number of shares and conditions for each series.

The table below is a summary of the principal terms of BCE Inc.'s first preferred shares at December 31, 2005. There were no second preferred shares issued and outstanding at December 31, 2005. BCE Inc.'s articles of amalgamation describe the terms and conditions of these shares in detail.

First preferred shares

						NUMBER OF SHARES		STATED CAPITAL AT DECEMBER 31 (IN $ MILLIONS)	
SERIES	ANNUAL DIVIDEND RATE	CONVERTIBLE INTO	CONVERSION DATE	REDEMPTION DATE	REDEMPTION PRICE	AUTHORIZED	ISSUED AND OUTSTANDING	**2005**	2004
Q	floating	Series R	December 1, 2015	At any time	$25.50	8,000,000	—	**—**	—
R	4.54%	Series Q	December 1, 2010	December 1, 2010	$25.00	8,000,000	8,000,000	**200**	200
S	floating	Series T	November 1, 2006	At any time	$25.50	8,000,000	8,000,000	**200**	200
T	fixed	Series S	November 1, 2011	November 1, 2011	$25.00	8,000,000	—	**—**	—
Y	floating	Series Z	December 1, 2007	At any time	$25.50	10,000,000	1,147,380	**29**	29
Z	5.319%	Series Y	December 1, 2007	December 1, 2007	$25.00	10,000,000	8,852,620	**221**	221
AA	5.45%	Series AB	September 1, 2007	September 1, 2007	$25.00	20,000,000	20,000,000	**510**	510
AB	floating	Series AA	September 1, 2012	At any time	$25.50	20,000,000	—	**—**	—
AC	5.54%	Series AD	March 1, 2008	March 1, 2008	$25.00	20,000,000	20,000,000	**510**	510
AD	floating	Series AC	March 1, 2013	At any time	$25.50	20,000,000	—	**—**	—
								1,670	1,670

Voting rights

All of the issued and outstanding preferred shares at December 31, 2005 were non-voting, except under special circumstances, for example if BCE Inc. failed to make dividend payments, when the holders are entitled to one vote per share.

Entitlement to dividends

Holders of Series R, Z, AA and AC shares are entitled to fixed cumulative quarterly dividends. The dividend rate on these shares is reset every five years, as set out in BCE Inc.'s articles of amalgamation.

Holders of Series S and Y shares are entitled to floating adjustable cumulative monthly dividends.

If Series Q, AB and AD shares are issued, their holders will be entitled to floating adjustable cumulative monthly dividends.

If Series T shares are issued, their holders will be entitled to fixed cumulative quarterly dividends.

Conversion features

All of the issued and outstanding preferred shares at December 31, 2005 are convertible at the holder's option into another associated series of preferred shares on a one-for-one basis according to the terms set out in BCE Inc.'s articles of amalgamation.

Redemption features

BCE Inc. may redeem Series R, Z, AA and AC shares on the redemption date and every five years after that date.

If Series T shares are issued, BCE Inc. may redeem them on the redemption date and every five years after that date.

BCE Inc. may redeem Series S and Y shares at any time at $25.50 per share (being a 2% premium to the issue price). If Series Q, AB and AD shares are issued, BCE Inc. may redeem them at any time at $25.50 per share.

Liquidation, dissolution or winding up

The first preferred shares of all series rank on a parity with each other and in priority to all other shares of BCE Inc. with respect to payment of dividends and with respect to distribution of assets in the event of liquidation, dissolution or winding up of BCE Inc., whether voluntary or involuntary, or any other distribution of assets for the purpose of winding up its affairs.

The second preferred shares of all series rank on a parity with each other and after the first preferred shares and in priority to all other shares of BCE Inc. with respect to payment of dividends and with respect to distribution of assets in the event of liquidation, dissolution or winding up of BCE Inc., whether voluntary or involuntary, or any other distribution of assets for the purpose of winding up its affairs.

Common shares and Class B shares

BCE Inc.'s articles of amalgamation provide for an unlimited number of voting common shares and non-voting Class B shares. Each common share entitles its holder to one vote at any meeting of shareholders. The common shares and the Class B shares rank equally in the payment of dividends and in the distribution of assets if BCE Inc. is liquidated, dissolved or wound up, after payments due to the holders of preferred shares.

The table below provides details about the outstanding common shares of BCE Inc. at December 31, 2005 and 2004.

No Class B shares were outstanding at December 31, 2005 and 2004.

	2005		2004	
	NUMBER OF SHARES	STATED CAPITAL (IN $ MILLIONS)	NUMBER OF SHARES	STATED CAPITAL (IN $ MILLIONS)
Outstanding, beginning of year	**925,935,682**	**16,781**	923,988,818	16,749
Shares issued under employee stock option plan	**1,383,234**	**25**	1,946,864	32
Outstanding, end of year	**927,318,916**	**16,806**	925,935,682	16,781

There are ownership constraints on BCE Inc.'s common shares. For more details, see *The regulatory environment we operate in — Legislation that governs our business*.

Ratings for BCE Inc. securities

Ratings generally address the ability of a company to repay principal and interest or dividends on securities.

BCE Inc.'s securities are rated by the following rating agencies:

• Dominion Bond Rating Service Limited (DBRS)

• Standard & Poor's, a division of

The McGraw-Hill Companies, Inc. (S&P)

• Moody's Investors Service, Inc. (Moody's)

• Fitch Ratings Ltd. (Fitch)

This section describes the credit ratings that BCE Inc. has received for its securities. These ratings provide investors with an independent measure of credit quality of an issue of securities. Each rating should be evaluated independently.

These credit ratings are not recommendations to purchase, hold or sell any of the securities discussed above, or a comment on the market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn in the future by a rating agency.

On February 1, 2006, S&P lowered BCE Inc.'s corporate rating to A- from A. The outlook is negative. On February 1, 2006, Moody's placed BCE Inc.'s senior unsecured debt and issuer ratings under review for possible downgrade.

Commercial paper

The table below shows the range of credit ratings that each rating agency which rates our short term debt instruments assigns to short-term debt instruments.

	HIGHEST QUALITY OF SECURITIES RATED	LOWEST QUALITY OF SECURITIES RATED
DBRS	R-1 (high)	D
S&P	A-1 (high)	D
Moody's	P-1	P-3

The DBRS short-term debt rating scale indicates DBRS' assessment of the risk that a borrower will not fulfill its near-term debt obligation in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity.

An S&P commercial paper rating indicates S&P's assessment of whether the company can meet the financial commitments of a specific commercial paper program or other short-term financial instrument, compared to the debt servicing and repayment capacity of other companies in Canada's financial markets.

Moody's short-term ratings indicate Moody's assessment of the ability of issuers to meet short-term financial obligations. It may assign ratings to issuers, short-term programs or to individual short-term debt instruments. These short-term obligations generally have an original maturity of 13 months or less, unless explicitly noted.

BCE Inc. has received the following credit ratings for commercial paper.

	COMMERCIAL PAPER CREDIT RATING
DBRS	R-1 (low)
S&P	A-1 (low)
Moody's	P-2

The R-1 (low) rating for short-term debt ranks third among the 10 credit ratings given by DBRS, and, according to DBRS, indicates:

• satisfactory credit quality

• respectable overall strength and outlook for key liquidity, debt and profitability ratios, but not as favourable as higher rating categories

• any qualifying negative factors that exist are considered manageable, and the company is normally of sufficient size to have some influence in its industry.

The A-1 (low) rating ranks third among the eight short-term credit ratings given by S&P and, according to S&P, indicates the short-term obligation is slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than short-term obligations in higher rating categories and a satisfactory capacity to meet financial commitments on short-term obligations. Obligations rated A-1 (low) on the Canadian commercial paper rating scale would qualify for a rating of A-2 on S&P's global short-term rating scale.

The P-2 rating provided for BCE Inc. commercial paper ranks second among the three short-term credit ratings given by Moody's and according to Moody's, indicates a strong ability to repay short-term debt obligations.

Long-term debt (Senior notes Series A, B and C)

The table below shows the range of credit ratings that each rating agency assigns to long-term debt instruments.

	HIGHEST QUALITY OF SECURITIES RATED	LOWEST QUALITY OF SECURITIES RATED
DBRS	AAA	D
S&P	AAA	D
Moody's	Aaa	C
Fitch	AAA	D

The DBRS long-term debt rating scale indicates the risk that a company may not meet its obligations to pay interest and principal in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity.

S&P's credit rating is a current assessment of the creditworthiness of the company in meeting a specific financial obligation, a specific class of financial obligations, or a specific financial program. It takes into consideration:

• the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation

• the currency that the obligation is denominated in

• current information provided by the company or obtained by S&P from other reliable sources

• unaudited financial information from time to time, as S&P does not perform an audit

• the likelihood of payment – capacity and willingness of the company in meeting its financial commitment on an obligation according to the terms of the obligation

• the nature of and provisions of the obligation

• the protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Moody's long-term obligation ratings are an assessment of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

Fitch's international long-term credit ratings assess the capacity to meet foreign or local currency commitments. Both foreign and local currency ratings are internationally comparable assessments. The local currency rating measures the probability of payment only within the sovereign state's currency and jurisdiction.

BCE Inc. has received the following credit ratings for the long-term debt it has issued:

	LONG-TERM DEBT CREDIT RATING
DBRS	A (low)
S&P	BBB+
Moody's	Baa1
Fitch	BBB+

The DBRS A (low) rating on long-term debt ranks seventh among the 26 long-term debt credit ratings given by DBRS. According to DBRS, a company with long-term debt rated A by DBRS:

• is satisfactory credit quality

• protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities.

While A (low) is a respectable rating, companies that fall into this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities.

The BBB+ rating ranks eighth among the 22 long-term debt credit ratings given by S&P. According to S&P, a company rated BBB has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the company to meet its financial commitments.

The Baa1 rating ranks eighth among the 21 long-term debt credit ratings given by Moody's. According to Moody's, obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and may have certain speculative characteristics.

The BBB+ rating ranks eighth among the 23 long-term ratings given by Fitch. According to Fitch, BBB ratings indicate that there is currently expectations of low credit risk and good credit quality. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity.

Preferred Shares

The table below describes the range of credit ratings that each rating agency assigns to preferred share instruments.

	HIGHEST QUALITY OF SECURITIES RATED	LOWEST QUALITY OF SECURITIES RATED
DBRS	Pfd-1 (high)	D
S&P	P-1 (high)	D

The DBRS preferred share rating scale indicates their assessment the risk that a borrower may not be able to meet its full obligation to pay dividends and principal in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity.

S&P's preferred share rating is a current assessment of the credit-worthiness of a company in meeting a specific preferred share obligation issued in the market, compared to preferred shares issued by other issuers in the Canadian market.

BCE Inc. has received the following credit ratings for the first preferred shares it has issued.

	PREFERRED SHARE CREDIT RATING
DBRS	Pfd-2 (low)
S&P	P-2

The Pfd-2 (low) rating for preferred shares ranks sixth among the 16 preferred share credit ratings given by DBRS. According to DBRS, a company with preferred shares rated Pfd-2 by DBRS:

• is satisfactory credit quality

• protection of dividends and principal is still substantial, but earn-ings, balance sheet, and coverage ratios are not as strong as Pfd-1 rated

companies. Generally, companies with Pfd-2 ratings have senior bonds rated in the A category.

The P-2 rating ranks fifth among the 18 preferred share credit ratings given by S&P. A P-2 rating on the Canadian scale is equivalent to a BBB rating on the global scale. According to S&P, an obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the company's ability to meet its financial commitment on the obligation.

Trading of our Securities

Common and preferred shares of BCE Inc. are listed on the TSX. In addition, BCE Inc.'s common shares are listed on the NYSE and the SWX Swiss Exchange. The tables below and on the next page show the range in share price per month and volume traded on the TSX for each class of BCE Inc. securities.

BCE Inc. Common shares

2005	HIGH	LOW	VOLUME TRADED
December	$ 28.350	$ 26.750	44,293,850
November	$ 30.500	$ 26.450	70,416,828
October	$ 31.810	$ 28.600	49,547,877
September	$ 33.000	$ 30.500	72,481,661
August	$ 31.330	$ 29.650	45,892,976
July	$ 30.140	$ 28.830	30,957,684
June	$ 29.740	$ 28.350	45,805,821
May	$ 30.240	$ 28.330	50,177,755
April	$ 30.460	$ 29.760	43,099,590
March	$ 30.250	$ 28.940	53,414,898
February	$ 29.810	$ 28.710	36,213,010
January	$ 30.110	$ 28.750	38,201,618

BCE Inc. Preferred shares – Series R

2005	HIGH	LOW	VOLUME TRADED
December	$ 26.000	$ 25.500	114,213
November	$ 26.250	$ 25.040	518,319
October	$ 25.500	$ 25.200	434,439
September	$ 25.430	$ 25.000	569,951
August	$ 25.750	$ 25.010	24,099
July	$ 25.840	$ 25.360	28,475
June	$ 25.850	$ 25.200	56,286
May	$ 26.250	$ 24.760	37,105
April	$ 26.000	$ 25.210	2,386,929
March	$ 26.010	$ 25.500	45,256
February	$ 26.060	$ 25.280	46,904
January	$ 26.250	$ 25.670	65,638

BCE Inc. Preferred shares – Series S

2005	HIGH	LOW	VOLUME TRADED
December	$ 25.450	$ 25.010	44,616
November	$ 25.500	$ 25.020	118,762
October	$ 25.350	$ 25.100	33,443
September	$ 25.450	$ 25.020	56,664
August	$ 25.370	$ 24.960	78,365
July	$ 25.240	$ 25.000	245,611
June	$ 25.400	$ 24.900	166,769
May	$ 25.090	$ 24.750	195,095
April	$ 25.050	$ 24.850	162,953
March	$ 25.140	$ 24.900	69,076
February	$ 25.250	$ 24.860	402,354
January	$ 25.190	$ 24.850	82,565

BCE Inc. Preferred shares – Series Y

2005	HIGH	LOW	VOLUME TRADED
December	$ 25.350	$ 24.750	22,075
November	$ 25.420	$ 24.870	28,155
October	$ 25.490	$ 24.950	14,325
September	$ 25.490	$ 25.000	16,780
August	$ 25.500	$ 25.000	11,850
July	$ 25.100	$ 24.520	19,350
June	$ 25.600	$ 24.600	5,395
May	$ 25.490	$ 24.800	10,325
April	$ 24.800	$ 24.500	7,975
March	$ 25.250	$ 24.020	7,790
February	$ 25.500	$ 24.750	4,215

January	$ 25.840	$ 25.050	6,305

BCE Inc. Preferred shares – Series Z

2005	HIGH	LOW	VOLUME TRADED
December	$ 26.750	$ 25.850	54,815
November	$ 26.750	$ 26.060	48,475
October	$ 26.990	$ 26.010	82,703
September	$ 26.890	$ 26.150	140,787
August	$ 26.990	$ 26.250	40,445
July	$ 26.900	$ 26.150	107,263
June	$ 27.050	$ 26.000	104,689
May	$ 27.150	$ 26.300	94,299
April	$ 27.400	$ 26.000	255,656
March	$ 27.100	$ 26.000	151,835
February	$ 27.150	$ 26.500	119,544
January	$ 27.250	$ 26.700	143,194

BCE Inc. Preferred shares – Series AA

2005	HIGH	LOW	VOLUME TRADED
December	$ 26.160	$ 25.560	518,189
November	$ 26.880	$ 25.500	3,934,677
October	$ 26.650	$ 26.010	146,561
September	$ 26.650	$ 26.200	178,023
August	$ 26.540	$ 26.000	51,050
July	$ 26.750	$ 26.100	236,840
June	$ 26.700	$ 26.250	355,690
May	$ 26.740	$ 26.250	65,063
April	$ 26.900	$ 26.250	183,576
March	$ 27.050	$ 26.500	311,950
February	$ 26.950	$ 26.500	185,203
January	$ 27.200	$ 26.650	700,110

BCE Inc. Preferred shares – Series AC

2005	HIGH	LOW	VOLUME TRADED
December	$ 26.800	$ 25.400	118,936
November	$ 26.800	$ 25.250	54,885
October	$ 26.990	$ 26.360	42,505
September	$ 26.950	$ 26.460	250,570
August	$ 26.950	$ 26.010	90,395
July	$ 27.000	$ 26.300	129,895
June	$ 26.840	$ 26.250	120,910
May	$ 26.950	$ 26.500	208,666
April	$ 27.150	$ 26.450	257,847
March	$ 27.300	$ 26.500	313,200
February	$ 27.250	$ 26.750	258,101
January	$ 27.490	$ 26.950	558,125

OUR DIVIDEND POLICY

Subject to being declared by the board of directors, BCE Inc. pays quarterly dividends on common shares at a rate of $1.32 per year.

Subject to being declared by the board of directors, BCE Inc. pays dividends on preferred shares every quarter, except for dividends on Series S and Series Y preferred shares, which BCE Inc. declares and pays monthly.

The board of directors regularly reviews the appropriateness of BCE Inc.'s dividend policy against BCE Inc.'s actual operating and financial performance and BCE Inc.'s anticipated future performance.

The table below shows the amount of cash dividends declared per share of each class of BCE Inc. shares for 2003, 2004, and 2005.

	2005	2004	2003
Common	**$ 1.32**	$ 1.20	$ 1.20
Preferred shares			
– Series P	**—**	—	$ 1.40
– Series R	**$1.441375**	1.5435	1.5435
– Series S	**$ 0.7546**	$0.66022	$1.02094
– Series Y	**$ 0.79798**	$0.66267	$0.94637
– Series Z	**$ 1.3298**	1.3298	1.3298
– Series AA	**$ 1.3625**	1.3625	1.3625
– Series AC	**$ 1.385**	$ 1.385	$ 1.385

ABOUT OUR BUSINESSES

We report Bell Canada's results of operation in four segments. Each reflects a distinct customer group: *Residential* (formerly the *Consumer* segment), *Business*, *Aliant* and *Other Bell Canada*. All of our other activities are reported in the *Other BCE* segment. This section describes our products and services and competitors for each of our businesses.

BELL CANADA

Bell Canada is Canada's leading provider of wireline and wireless communications services, Internet access, data services and video services to residential and business customers. Bell Canada's major lines of business, which include our *Residential, Business, Aliant* and *Other Bell Canada* segments, are described below.

Some of Bell Canada's revenues vary slightly by season. Business segment revenues tend to be higher in the fourth quarter because of higher levels of voice and data equipment sales. Our operating income can also vary slightly by season. Residential segment operating income tends to be lower in the fourth quarter due to the higher costs associated with greater subscriber acquisition during the holiday season.

PRODUCTS AND SERVICES

Bell Canada is our primary focus and the largest component of our business. It has six major lines of business:

• local and access services

• long distance services

• wireless services

• data services

• video services

• terminal sales and other.

Local and access services

Bell Canada operates an extensive local access network that provides local telephone services to business and residential customers. The 12.6 million local telephone lines, or NAS, we provide to our customers are key in establishing customer relationships and are the foundation for the other products and services we offer.

Local telephone service is the main source of local and access revenues. Other sources of local and access revenues include:

• VAS, such as call display, call waiting and voicemail

• services provided to competitors accessing our local network

• connections to and from our local telephone service customers for competing long distance companies

• subsidies from the National Contribution Fund to support local service in high-cost areas.

Rates for local telephone and value-added services in our incumbent territories are regulated by the CRTC.

The local telephone services market became increasingly competitive in 2005 as the major cable operators in our Québec and Ontario markets began to offer low-priced cable telephony services. In 2005, we launched our own VoIP service for residential customers under the name Bell Digital Voice.

Long distance services

We supply long distance voice services to residential and business customers. We also receive settlement payments from other carriers for completing their customers' long distance calls in our territory.

Prices for long distance services have been declining since this market was opened to competition. In 2005, the long distance services market became more competitive with the emergence of cable telephony and the continuing impact of non-traditional suppliers (i.e. prepaid card, dial-around and other VoIP providers).

Wireless services

We offer a full range of wireless communications services to residential and business customers, including cellular, personal communications services (PCS) and paging. PCS customers can get wireless access to the Internet through our Mobile Browser service or send text messages. We also provide VAS, such as call display and voicemail, data applications including e-mail and video-streaming and roaming services with other wireless service providers. Customers can choose to pay for their cellular and PCS services through a monthly rate plan (postpaid) or in advance (prepaid). At the end of 2005, we had approximately 5.8 million cellular, PCS and paging customers.

The wireless division of each of our incumbent telephone companies provides wireless communications in its home territory, except for Bell Mobility, which provides these services in its home territory, as well as in Alberta and British Columbia.

Our wireless network provides voice services, as well as data services at typical transmission speeds of approximately 120 kilobits per second (Kbps) delivered over our existing single-carrier radio transmission technology (1xRTT) network. In 2005, we launched Canada's first EVDO wireless data network in Toronto and Montréal. EVDO technology is the third generation (3G) of wireless networks delivering average data download speeds of 400-700 Kbps with peaks of up to 2.4 Mbps. We expect to deploy EVDO in other major urban centres across Canada in 2006. At the end of 2005 our wireless network covered:

• 95% of the population in Ontario and Québec

• approximately 90% of the population in Atlantic Canada

• the major cities in the Provinces of Alberta and British Columbia

In 2005, we introduced two new brands geared towards the key youth market segment. In February, we launched our joint venture with the Virgin Group to offer wireless services under the Virgin brand. In July, Bell Mobility introduced Solo Mobile, a new brand featuring custom-built services and unique applications such as a nationwide pay-per-use push-to-talk (PTT) service and the choice of postpaid or prepaid options. We are the first Canadian wireless operator to actively market PTT to the consumer youth segment.

Data services

High-speed Internet access service provided through DSL technology for residential and business customers, particularly SMB, is a growth area for Bell Canada. At the end of 2005, we had approximately 2.2 million high-speed Internet customers.

We expanded our DSL high-speed Internet footprint in Ontario and Québec to 85% of homes and business lines passed at the end of 2005, compared to 83% at the end of 2004. In Atlantic Canada, DSL high speed Internet was available to 81% of homes and 85% of businesses at the end of 2005, compared with 72% and 79%, respectively, at the end of 2004.

During 2005, we enhanced our suite of DSL services by upgrading our Sympatico DSL Basic offering from 256 Kbps to 512 Kbps and by

launching a Basic Lite DSL service at 128 Kbps. In addition, we increased our broadband access speed for ultra high-speed users to 5 Mbps from 4 Mbps for residential customers and to 6 Mbps from 4 Mbps for SMB customers.

In 2005, we became a partner in Inukshuk. Inukshuk was launched in 2003 to provide wireless high-speed Internet access across Canada using spectrum in the 2.5 GHz range. With Inukshuk, we expect to

have the capability to provide broadband connections to virtually all of our customers, either through DSL or through a fixed wireless platform, once the network is fully deployed.

We offer a full range of data services to business customers, including Internet access, IP-based services, ICT solutions and equipment sales. While we still offer legacy data services such as frame relay and asynchronous transfer mode (ATM), we continued the process of discontinuing the sale of legacy data services other than to current customers.

Video services

We are Canada's largest digital television provider, broadcasting nationally more than 400 all-digital video and audio channels and a wide range of domestic and international programming. We also offer hardware including, personal video recorders (PVRs), interactive TV services and the most extensive line-up of high definition channels in Canada. We currently distribute our video services to more than 1.7 million customers through Bell ExpressVu and Bell Canada in one of three ways:

• *direct-to-home (DTH) satellite* – we have been offering DTH video services nationally since 1997. We use four satellites: Nimiq 1, Nimiq 2, Nimiq 3, and Nimiq 4-Interim, which was added in the first quarter of 2006 to improve signal strength and reliability while increasing capacity. Telesat operates or directs the operation of these satellites.

• *very high bit rate DSL (VDSL)* – this allows us to expand our reach to the multiple-dwelling unit (MDU) market. By the end of 2005, we had signed access agreements with 757 buildings and had provisioned 464 of them.

• *hybrid fibre co-axial cable* – On August 2, 2005, we acquired the residential assets of Cable VDN Inc. (Cable VDN), a Montréal-based cable company selling residential analog and digital TV. Cable VDN has over 12,500 residential cable subscribers in the Montréal area, representing an approximate 40% penetration within its current footprint. We believe that Cable VDN provides us with a more cost effective way of addressing the MDU market in Montréal, compared to VDSL, allowing for quicker access to smaller, harder to reach MDUs.

In 2006, we intend to continue investing in our IPTV (video over Internet Protocol) platform that will target urban households in markets within the Québec City to Windsor corridor. In 2004, we received CRTC approval of our broadcast license application to deliver video services terrestrially to single family units (SFUs). We started technical trials of our IPTV service in 2005 and expect to begin customer trials in 2006. IPTV will offer unprecedented interactivity to experience a variety of digital content on your television.

Signal piracy continues to be a major issue facing all segments of the Canadian broadcasting industry. During 2005, we completed the deployment of a new conditional access system (our card swap program) commenced in the previous year. All new customers since August 2004 have been supplied with the new system and, over the past year, we have been replacing the old smart cards of all remaining customers. As of July 2005, customers can only receive DTH video and audio services over the new conditional access system. In addition to the card swap, we continued our ongoing efforts against television signal theft, including sophisticated set-top box (STB) tracking systems and specific point-of-sale practices such as obtaining customer photo identification and credit card information, aggressive measures to investigate and initiate legal action against persons engaged in the manufacture, sale and distribution of signal theft technology, and enforcement of policies with authorized retailers to combat piracy, including a zero tolerance policy for activities related to signal theft.

Terminal Sales and Other

This category includes revenues from a number of other sources, including:

• renting, selling and maintaining business terminal equipment

• wireless handset and video STB sales

• network installation for third parties

• IT services provided by Aliant

Wholesale business

The Wholesale business that forms part of our Other Bell Canada segment provides local telephone, long distance, data and other services to customers who in many cases are also Bell Canada's competitors. These wholesale customers, who are located principally in Ontario and Québec and may also be in Western Canada and the United States, resell these services or use them in combination with their own network capabilities.

Marketing and distribution channels

The Residential segment delivers its products and services through:

• approximately 9,000 call centre representatives

• 382 Bell World/Espace Bell and Bell Mobility retail locations, of which 159 are corporately owned stores with dealers owning the rest.

• Over 3,800 retail points of presence through both national retailers such as Future Shop, Best Buy, Radio Shack, The Source by Circuit City, Wireless Wave (Wireless only) and regional retailers in both the West such as London Drugs and Visions and in Québec such as Audiotronics/Dumoulin.

• the bell.ca websites.

Customers can buy our full range of products through the call centres, retail stores, sales representatives and our web portals.

The Residential segment's large wireline customer base and its ability to sell through a variety of distribution channels are key competitive advantages.

Bell Canada also offers customers the convenience of One Bill for wireline, Bell ExpressVu and Sympatico Internet access services with a single point of contact. At the end of 2005, we started migrating Bell Mobility customers who receive a single invoice for their other Bell Canada services to One Bill.

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Communications products and services for Bell Canada's SMB customers are delivered by Bell Canada's SMB group. They are sold through web-portals, call centres and dedicated sales representatives. We will continue to focus on increasing the number of products per customer in this market by cross-selling Internet access, wireless, gateways, conferencing, and network architecture and consulting services. We will also continue to simplify our processes and the overall experience for our customers.

Communications products and services for Bell Canada's large Enterprise customers are delivered by Bell Canada's Enterprise group. They are sold through our web portals, call centres, dedicated sales representatives, as well as through competitive bids that we win. In addition to basic communications services, the Enterprise group bundles products, services and professional services into fully managed, end-to-end, network-based business solutions for its customers. It also partners with third parties to bid on and sell complex business solutions. We are focusing on increasing the number of customers that buy business solutions. These offer more value, strengthen relationships with customers and help reduce churn.

Aliant sells its telecommunications products and services through approximately 1,650 call centre representatives, approximately 210 independent dealer stores, 48 stores through its acquisition of DownEast Ltd. and the aliant.net website. Aliant facilitates customer payments through approximately 280 payment agencies. During 2005, Aliant continued to implement measures to simplify and speed-up various types of customer interactions.

Communications products and services for Bell Canada's Wholesale business are delivered by Bell Canada's Carrier Services Group. They are sold through our dedicated sales representatives, web portals and call centres.

Networks

The telecommunications industry continues to evolve rapidly as the industry moves from multiple service-specific networks to IP-based integrated communications networks where text, video, sound and voice all travel on a single network. Bell Canada and Aliant continue to work with Nortel Networks Corporation (Nortel Networks) and Cisco Systems Canada, to establish a national multi-services IP-enabled network. See *Our strategic priorities* for more information related to our IP strategy. See *Business Highlights – 2003 Highlights* for more information related to agreements with Nortel Networks and Cisco Systems Canada in relation with our IP networks.

Bell Canada's communications networks provide voice, data, wireline and wireless services to customers across Canada and in limited areas of the United States.

Bell Canada's infrastructure includes:

• national transport for voice and data, including Internet traffic

• urban and rural infrastructures for delivering services to customers

• national wireless networks that provide voice and data services

• satellite and VDSL delivery of video services to customers.

Bell Canada's national voice and data network consists of an optical fibre network, configured as multiple rings for redundancy and fault protection. It reaches all major metropolitan centres and many smaller ones in Canada, as well as New York, Chicago, Washington, Atlanta, Dallas, Los Angeles, San Francisco and Seattle in the United States.

Bell Canada's networks in major Canadian cities also provide state-of-the-art high-speed access at gigabit speeds based on IP technology, while continuing to be a key provider of traditional voice and data services.

Since 2004, Bell Canada has been upgrading the access infrastructure to drive fiber to within 1 km of its residential customers using FTTN technology. By the end of 2005, over 2,000 FTTN nodes were deployed.

In total, Bell Canada's wireless infrastructure covered 95% of Ontario's and Québec's population at December 31, 2005. Bell Canada's wireless network also covers major cities in the provinces of Alberta and British Columbia. On October 31, 2005 Bell Canada became the first wireless operator in Canada to launch EVDO, a 3G digital wireless technology which provides the company with new revenue opportunities in both the business and residential markets. EVDO delivers data-rich content such as e-mail, video messaging, gaming, video conferencing, telematics and streaming entertainment.

Bell Canada has extensive copper and voice-switching networks that provide local and interexchange voice services to all of its business and residential customers in Ontario, Québec and the Atlantic provinces.

Aliant's network provides voice, data, wireline and wireless services to customers throughout Atlantic Canada. In 2005 Aliant launched an IPTV service in the Halifax market, and plans to expand this service to other areas of Atlantic Canada in 2006. In 2005 Aliant also commenced a technology trial for EVDO. Aliant's EVDO service will initially be introduced to customers in the Halifax area in early 2006 and then expanded to other areas across Atlantic Canada.

Aliant also has launched Aliant IP virtual private network (VPN), a next generation business IP wide area network (WAN) data service, connecting customers' offices and data centers throughout Atlantic Canada to the rest of the country. This service enhances Aliant's ability to provide ICT solutions that add value and efficiencies to customers' businesses. Aliant IP VPN is the first IP service to be offered by Aliant over its new state-of-the-art national multi-protocol label switching (MPLS) network, developed by Aliant along with Bell Canada. MPLS is an underlying networking technology that enables delivery of VoIP, IP videoconferencing, IP call center applications and other future IP applications.

In 2005 Aliant expanded its digital wireless network. As at December 31, 2005 approximately 90% of Atlantic Canada's population had access to Aliant's digital wireless voice and data network.

Aliant also expanded its high-speed Internet service to pass 81% of homes and 85% of businesses in Atlantic Canada as at December 31, 2005.

Competition

Since the local services market was opened to competition in 1998, almost all of the markets that Bell Canada operates in are competitive. We face intense competition from traditional competitors, as well as from new players entering our markets. We compete with telecommunications and television service providers. We also compete with other businesses and industries, including cable, software and Internet companies, a variety of companies that offer network services, such as providers of business information systems, system integrators, and other companies that deal with, or have access to, customers through various communications networks.

Competition in Atlantic Canada is intense. Almost every aspect of Aliant's business is subject to competition. Competitive factors are similar to those identified in our Residential and Business segments. Competition includes not only Bell Canada's major national competitors but also competitive activity and competitors unique to Atlantic Canada, such as Eastlink Communications (Eastlink), especially for local service.

The CRTC regulates the prices we can charge for basic access services. See *The regulatory environment we operate in* for more information.

Technology substitution, and VoIP in particular, have reduced barriers to entry in the industry. This has allowed competitors with far lower investments in financial, marketing, personnel and technological resources to rapidly launch new products and services and gain market share. Certain VoIP technology implementations do not require service providers to own or rent physical networks, which gives other competitors increased access to this market.

Wireline

Our main competitors in local and access services are:

• Allstream (a division of MTS Allstream Inc.)

• Rogers Telecom Inc. (formerly Sprint Canada) (Rogers Telecom)

• Telus Corporation (Telus Communications)

• Vidéotron ltée (Vidéotron), in Québec

• Eastlink, in the Maritime provinces

• Futureway Communications Inc., in the greater Toronto area.

• Cogeco Cable Inc. (a subsidiary of Cogeco Inc.) (Cogeco), in parts of Ontario and Québec

• Primus Telecommunications Canada Inc. (Primus)

• Vonage Canada (a division of Vonage Holdings Corp.).

Our major competitors in long distance are:

• Telus Communications

• Allstream

• Rogers Telecom

• prepaid long distance providers, such as Group of Goldline

• Primus

• dial-around providers, such as Yak and Looney Call, which are divisions of YAK Communications (Canada) Inc.

• Eastlink, in the Maritime provinces

• Cogeco, in parts of Ontario and Québec

• Vonage Canada.

We face increasing cross-platform competition as customers replace traditional services with new technologies. For example our wireline business competes with VoIP, wireless and Internet services, including chat services, instant messaging and e-mail. We are also facing competitive pressure from cable companies as a result of them now offering voice services over their networks. Cable telephony is being driven by its inclusion in discounted bundles and is now offered in a number of markets such as Toronto, Montréal, Québec City and Hamilton, with further expansion expected in 2006. Since the offering of voice services by cable companies is still relatively recent, it is difficult to predict the extent and timing of any resulting loss in market share that we might suffer as well as the extent to which customers that cease using our voice services will also cease using our other services such as video and Internet access. Additional competitive pressure is also emerging from other competitors such as electrical utilities. These alternative technologies, products and services are now making significant inroads in our legacy services, which typically represent our higher margin business.

We experience significant competition in the provision of long distance service from dial-around providers, prepaid card providers, VoIP service providers, cable companies and others, and from traditional competitors, such as interexchange carriers and resellers.

Competition for contracts to supply long distance services to large business customers is very intense. Customers may choose to switch to competitors that offer lower prices to gain market share and are less concerned about the quality of service or impact on their margins. Competitors are also offering IP-based telephony to business customers at attractive prices.

Atlantic Canada is the only market in Canada where residential local service is more competitive than business. Competition continues to increase as the largest competitive local exchange carrier in Atlantic Canada continues to expand into new areas in Nova Scotia, Prince Edward Island and parts of New Brunswick and partners with a wireless provider to add cellular services as an option in its bundled offerings which already consist of local, long distance, Internet and cable television. In addition, a long distance competitor has begun offering local service, using both traditional wireline and VoIP in Aliant's largest urban market, Halifax. As technology advances, competition for local service is expected to continue to grow as VoIP becomes more widely accepted in the market. For example, Rogers plans to launch cable telephony in New Brunswick and Newfoundland in 2006.

These competitive factors suggest that our legacy wireline customers and long distance volumes will continue to decline in the future. Our

strategy is to mitigate these declines through cost reductions and by building the business for newer growth services but the margins on newer services will likely be less than the margins on legacy services.

Wireless

The Canadian wireless telecommunications industry is highly competitive. We compete directly with other wireless service providers, including resellers known as “Mobile Virtual Network Operators”, that aggressively introduce, price and market their products and services. We also compete with wireline service providers. We expect competition to intensify as new technologies, products and services are developed.

Bell Mobility competes for cellular and PCS customers, dealers and retail distribution outlets directly with:

• Rogers Wireless Inc. (including its subsidiary Fido Inc.) (Rogers Wireless)

• Telus Mobility (a business unit of Telus Communications).

Competition for subscribers to wireless services is based on price, services and enhancements, technical quality of the cellular and PCS system, customer service, distribution, coverage and capacity.

Internet access

We compete with cable companies and Internet service providers (ISPs) to provide broadband and Internet access and related services. In particular, cable companies have focused on increased bandwidth and discounted pricing on bundles to compete against us.

Regional electrical utilities may continue to develop and market services that compete directly with Bell Canada’s Internet access and broadband services. Developments in wireless broadband services may also lead to increased competition in certain geographic areas.

In the high-speed Internet access services market, the Residential segment competes with large cable companies, such as:

• Rogers Cable Inc. (Rogers Cable)

• Vidéotron

• Cogeco

• Eastlink, in the Maritime provinces.

In the dial-up market, the Residential segment competes with America Online, Inc., Primus and more than 900 ISPs.

Video

Competition for subscribers is based on the number and kinds of channels offered, quality of the signal, set-top box features, availability of service in the region, price and customer service. Bell ExpressVu and Bell Canada compete directly with Star Choice Television Network Inc., another DTH satellite television provider, and with cable companies across Canada.

Bell Canada offers video services through DTH Satellite, VDSL and hybrid fibre co-axial cable. It has also received a licence to offer video on a wireline basis. See *The regulatory environment we operate in – Broadcasting Act* for more information on Bell Canada’s licence.

Bell ExpressVu and Bell Canada continue to face competition from unregulated U.S. DTH satellite television services that are illegally sold in Canada. Bell ExpressVu and Bell Canada’s competitors also include Canadian cable television providers, such as:

• Rogers Cable

• Shaw Communications Inc.

• Vidéotron

• Cogeco

• Eastlink and Persona Communications Corp., in the Maritime Provinces.

Wholesale

Our Wholesale business’ main competitors include traditional carriers and emerging carriers. Traditional, facilities-based competitors include Allstream and Telus Communications who may wholesale some or all of the same products and services as Bell Canada. Emerging competitors include utility-based telecommunications providers, cable operators and US-based carriers for certain services.

Competitive activity for tariffed services (e.g. Centrex and digital private line services) is moderate, with facilities-based carriers providing the primary threat in regulated voice and data access products. Competition is greatest in the unregulated areas, especially for toll minutes and forborne data services. For example, in the data market for private line, frame and ATM products, we face continued price pressure as well as the ongoing threat of customers evolving to IP-based services. Our resale DSL market, however, continues to grow. The recent growth of end-user technologies such as VoIP is also expected to increase pressure on some legacy product lines.

OTHER BCE SEGMENT

The Other BCE segment includes our other media and satellite activities. This segment includes Bell Globemedia and Telesat. For more information with respect to the sale of a portion of our Bell Globemedia interest, the proposed recapitalization and public offering of Telesat and the sale of our interest in CGI Group Inc. (CGI), *see Business Highlights – 2005 Highlights – Key Acquisitions and Dispositions* .

Revenues for the Other BCE Segment tend to be highest in the fourth quarter and the lowest in the third quarter because of seasonal patterns in advertising spending in the fall and summer respectively.

BELL GLOBEMEDIA

Bell Globemedia provides information and entertainment services to Canadian customers and access to distinctive Canadian content. It includes CTV, Canada’s leading private broadcaster, and The Globe and Mail, Canada’s leading national newspaper.

Bell Globemedia's revenues mainly come from selling advertising through its TV and print businesses. Revenues also come from subscriptions to The Globe and Mail's newspaper and on-line businesses and subscription fees that cable and DTH satellite television companies pay for carrying Bell Globemedia's specialty TV channels, such as TSN, RDS and Discovery Channel.

See *The regulatory environment we operate in – Broadcasting Act* for information about regulations that affect Bell Globemedia.

CTV

CTV is Canada's leader in conventional and specialty television. It operates the CTV Television Network, a private English-language national television network that reaches almost all English-speaking Canadians.

CTV has ownership interests in and/or manages several analogue and digital specialty television channels in Canada. These include CTV Newsnet, The Comedy Network, Outdoor Life Network, Talk TV, ROB TV and CTV Travel. Through its approximate 70.1% economic interest in CTV Specialty Television Inc., CTV has ownership interests in and/or manages the specialty television channels, TSN, RDS and Discovery Channel, and a number of digital specialty television channels, which include ESPN Classic Canada, Animal Planet, Discovery Civilization Channel, the NHL Network, Discovery HD and RIS Info Sports. CTV also produces and distributes television programs.

The Globe and Mail

Founded in 1844, The Globe and Mail is Canada's National Newspaper. It circulates an English-language edition six days a week in every province and territory. Globeandmail.com provides around the clock news coverage. For the 12 months ended September 30, 2005, total circulation was 326,707 copies a day, Monday to Friday, and 409,200 copies on Saturday. This was 35.6% higher on weekdays and 55.6% higher on Saturdays than its main competitor, the National Post. Total readership can exceed one million people a day. The Globe and Mail has a 40% interest in workopolis.com.

Competition

While CTV's broadcast operations have a significant market share in their broadcast areas, they face substantial competition for viewers and advertising revenues from CanWest Global Communications Corp. (CanWest), CHUM Limited, Alliance Atlantis Communications Inc., Corus Entertainment Inc., Canadian Broadcasting Corporation and other companies.

The Globe and Mail competes with a broad range of print media for circulation and advertising revenues. Competition has intensified since the National Post was launched in 1998. In the past few years, several commuter papers were also launched in Toronto and Vancouver, which are key markets for The Globe and Mail. The Globe and Mail also competes for readers and advertisers with Quebecor Inc.'s Sun Media newspaper chain, CanWest's many local daily newspapers across Canada, and The Toronto Star, which is owned by Torstar Inc. Through its interest in workopolis.com, The Globe and Mail competes for electronic job posting fees and other fees from employers managing their workforces. Key competitors in Canada are Monster, Jobboom, Careerbuilder, Yahoo's Hot Jobs and CanWest's Working.

TELESAT

In 1972, Telesat launched the world's first commercial domestic geostationary satellite system, established to provide satellite-based telecommunications services for Canada. Today, Telesat provides a wide variety of video and two-way data services as well as various consulting services dealing with all aspects of the satellite business.

It owns and operates five satellites, and leases two additional satellites. These satellites provide broadcast distribution and telecommunication services to customers in North America and South America. Three of these satellites, Nimiq 1, Nimiq 2 and Nimiq 3 provide capacity and back-up capability for Bell ExpressVu's DTH satellite television services. A fourth satellite, Nimiq 4-Interim, a satellite leased by Telesat, will also provide further capacity and back-up capability for Bell ExpressVu beginning in the first quarter of 2006. Telesat also has two satellites under construction, which are expected to be launched in 2006 and 2008.

DISCONTINUED OPERATIONS

In the past two years, we have disposed of, or approved formal plans for disposing of, a number of our businesses, including:

- our decision on December 16, 2005 to sell our investment in CGI
- Emergis Inc.'s (Emergis) U.S. Health operations, which were sold in March 2004
- Emergis, which was sold in May 2004.

Our decision to sell our 29.8% stake in CGI was made following a review of our investment, which determined that it was no longer strategically essential for BCE to hold an equity interest in CGI. On the closing date of the transaction (January 12, 2006), BCE Inc. sold 100 million Class A shares to CGI for cash proceeds of $859 million. We intend to dispose of our remaining 28.3 million Class A shares (representing 8.6% of the outstanding shares of CGI).

All of these business dispositions were treated as discontinued operations. We therefore restated the financial results of all previous years to exclude the results of these businesses.

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OUR POLICY ON CORPORATE RESPONSIBILITY

On November 2, 2004, BCE Inc. adopted an environmental policy that affirms:

• our commitment to environmental protection

• our belief that environmental protection is an integral part of doing business, and needs to be managed systematically under a continuous improvement process.

The policy contains principles that support our commitment, varying from exercising due diligence to meet or exceed the environmental legislation that applies to us, to preventing pollution and promoting cost-effective initiatives that minimize resources and waste.

We have instructed subsidiaries subject to this policy to support these principles, and have established a management-level committee to oversee the implementation of the policy.

Bell Canada monitors its operations to ensure that it complies with environmental requirements and standards, and takes action to prevent and correct problems, when needed. It has had an environmental management and review system in place since 1993, that:

• provides early warning of potential problems

• identifies management and cost saving opportunities

• establishes a course of action

• ensures ongoing improvement through regular monitoring and reporting

One of its key tools is the corporate environmental action plan, which outlines the environmental activities of Bell Canada's various business units. The plan identifies funding requirements, accountabilities and deliverables, and monitors Bell Canada's progress in meeting its objectives. As of December 31, 2005, Bell Canada has integrated the following entities into its corporate environmental action plan: Bell Canada, Bell Mobility, Bell ExpressVu, Bell West, BCE Nexxia Corp., Expertech, Télébec, NorthernTel, Northwestel and Telesat.

For the year ended December 31, 2005, Bell Canada spent $14.0 million on environmental activities, 69% of this was expenses and 31% was for capital expenditures. For 2006, Bell Canada has budgeted $15.3 million (70% for expenses and 30% for capital expenditures) to ensure that its environmental policy is applied properly and its environmental risks are minimized.

In 2002 Aliant adopted a comprehensive environment policy which provides for the identification of activities and situations which may have potential to harm the environment, and the implementation of environmentally friendly practices and preventive measures. Aliant's program seeks to ensure that Aliant complies with all environmental regulatory requirements and that its activities are carried out in a manner that minimizes risk to the environment.

Aliant manages its environment program through processes similar to those employed by Bell Canada, and collaborates on many levels to seek harmonization with Bell Canada's environment program. Aliant has adopted an environment action plan which sets out specific environmental goals for 2006.

Bell Globemedia monitors its operations to ensure that it complies with environmental requirements and standards. Its major business units have established environmental practices, which they follow, and have measures in place to manage environmental risks and to correct problems, when needed.

We are committed to sustainable development and integrate environmental, social and economic considerations into our business decisions. We engage with stakeholders to identify opportunities to create benefits for both society and the company while minimizing where we can, any negative impact our activities may generate.

We are an active member of the Global e-Sustainability Initiative (GeSI) (www.gesi.org), an international organization that promotes sustainable development in the ICT industry. Partners of the GeSI acknowledge the need for the ICT industry to take a leadership role in:

• better understanding the impact and opportunities offered by its evolving technology in a fast growing information society; and

• providing individuals, businesses and institutions with sustainable solutions to the challenges they face in attempting to maintain a balance between economy, ecology and society.

BCE Inc. is a component of socially responsible investment indices such as the Dow Jones Sustainability Index, the FTSE4 GOOD Index and the Jantzi Social Index.

BUSINESS HIGHLIGHTS

This section describes significant events in the past three years that have influenced our business.

2005 HIGHLIGHTS

Key Acquisitions and Dispositions

Acquisition of Nexxlink Technologies Inc. (Nexxlink)

On December 9, 2004, Bell Canada announced that it intended to offer to acquire all of the outstanding shares of Nexxlink, a provider of integrated IT solutions, at a price of $0.65 per share. As of February 21, 2005, Bell Canada had bought 89% of all the outstanding shares of Nexxlink for $59 million in cash. Bell Canada purchased the remaining shares in a subsequent transaction by way of amalgamation, which was approved at a Nexxlink shareholders' meeting on April 7, 2005.

Acquisition of Entourage

On April 30, 2005, Bell Canada completed the purchase of the interest of Entourage that it did not already own and Entourage became a wholly-owned subsidiary. Entourage is Bell Canada's residential installation and repair supplier. See *About BCE — Our employee*s for more information about Entourage.

Alliance with Clearwire Corporation (Clearwire)

On March 8, 2005, Bell Canada announced an alliance with Clearwire, a privately-held company led by Mr. Craig O. McCaw, through which Bell Canada became Clearwire's exclusive strategic partner for VoIP and certain other value-added IP services and applications in the United States. Bell Canada will also become Clearwire's preferred provider of these services and applications in markets beyond North America.

Clearwire offers advanced IP-based wireless broadband communications services in the U.S. and other international markets. Its core offering is a non line-of-sight (NLOS) wireless broadband data service that uses technology provided by NextNet Wireless, Inc., a Clearwire subsidiary, to allow customers "nomadic" Internet access. "Nomadic" refers to the ability to access the Internet from any place within the service area that has a power supply. Bell Canada will manage the deployment and operation of Clearwire's U.S. VoIP offering.

Bell Canada completed an investment of US$100 million in Clearwire for an approximate 12% interest and Mr. Michael Sabia joined Clearwire's board of directors. Subsequent funding by Clearwire has reduced Bell Canada's interest to approximately 11%.

Acquisition of Cable VDN residential assets

On August 2, 2005, Bell Canada announced the purchase of the residential assets of Cable VDN, a Montréal-based cable company selling residential analog and digital TV and high-speed Internet services for $26 million.

Alliance with Rogers to build nationwide wireless broadband network

On September 16, 2005, Bell Canada announced an alliance with Rogers to jointly build and manage a nationwide wireless broadband network through Inukshuk, which will hold approximately 98 MHz of wireless broadband spectrum in the 2.5GHz frequency range across much of Canada. Inukshuk is owned and controlled equally by Bell Canada and Rogers who will jointly and equally fund the initial network deployment costs estimated at $200 million over a three year period. The development and commercialization of services, as well as sales, marketing and end-user customer care and billing functions will be provided directly by Bell Canada and Rogers to their respective customers. Separately, in conjunction with this transaction, Bell Canada reached an agreement with companies controlled directly or indirectly by Craig McCaw to acquire the remaining 50% of NR Communications Ltd. not already owned by Bell Canada.

Sale of Bell Globemedia interest

On December 2, 2005, BCE Inc. announced an agreement to sell 20% of Bell Globemedia to Teachers, to sell an additional 20% to Torstar and finally to sell 8.5% to Woodbridge decreasing BCE's holding in Bell Globemedia from 68.5% to 20% and increasing Woodbridge and its affiliate's holding from 31.5% to 40%. These changes are subject to a number of approvals and closing conditions, including the approval of the CRTC and the Competition Bureau. At closing, which is expected to take place in the third quarter of 2006, Teachers and Torstar will each purchase their 20% interest in Bell Globemedia from BCE for $283 million and Woodbridge will purchase its additional 8.5% interest for $120 million.

In conjunction with the sale agreement, Bell Globemedia restructured its capital through additional borrowing and a return of capital to BCE Inc. and Woodbridge. The recapitalization was completed on January 23, 2006 with proceeds to BCE Inc. of approximately $607 million. Total proceeds to BCE Inc. from the return of capital and the sale of a 48.5% interest in Bell Globemedia are expected to be approximately $1.3 billion.

Sale of CGI interest

On December 16, 2005, BCE Inc. announced its decision to sell its 29.8% interest in CGI. On January 12, 2006, CGI purchased 100 million of its Class A shares held by BCE Inc. at a price of $8.5923 per share for total proceeds to BCE Inc. of $859.23 million. The shareholders' agreement between BCE Inc. and CGI was terminated upon completion of the transaction. BCE Inc. intends to dispose of its remaining 28.3 million Class A shares.

At the same time BCE and CGI have extended their outsourcing agreements. CGI will remain Bell Canada's preferred IS/IT (information systems/information technologies) provider until June 2016. CGI's outsourcing of its Canadian communications network management requirements to Bell Canada has been similarly extended. The commercial alliance between CGI and Bell Canada's Enterprise Group will also be extended to 2016.

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Strategic announcement of February 1, 2006

— Formation of rural lines income trust

On February 1, 2006, BCE Inc. announced its intention to form a new income trust that was expected to own and manage approximately 1.6 million local access lines in parts of Bell Canada's territory in Ontario and Québec.

— Proposed public offering for Telesat

On February 1, 2006, BCE Inc. announced its intention to implement a recapitalization of Telesat and a public offering of a minority stake in Telesat in the second half of 2006. Telesat provides Bell Canada and Bell ExpressVu with a variety of satellite based services pursuant to various commercial agreements and these commercial relations are expected to continue in effect after the public offering.

— Normal course issuer bid

On February 1, 2006, BCE Inc. also announced its intention to repurchase 5% of its outstanding common shares through a normal course issuer bid. BCE Inc. has filed its final notice of intention to make a normal course issuer bid with the TSX, which allows it to purchase for cancellation up to 46,000,000 of its common shares, representing approximately 5% of BCE Inc.'s 927,321,825 common shares outstanding as of the close of the market on January 16, 2006. Purchases of the common shares will be carried out through the TSX and/or the NYSE and will be made in accordance with the requirements of such exchanges. Purchases of common shares are permitted to be made from time to time, at market prices, during the period starting February 3, 2006, and ending no later than February 2, 2007.

Formation of regional telecommunications service provider

On March 7, 2006, BCE Inc. and Aliant announced their intention to create a new regional telecommunications service provider in the form of an income trust which would combine Bell Canada's regional wireline operations with Aliant's wireline operations. The new trust would also own Bell Canada's 63.4% interest in NorthernTel and Télébec indirectly held through Bell Nordiq Group Inc., an indirect wholly-owned subsidiary of Bell Canada.

By combining these assets, we will create a new regional telecommunications service provider of significant scale and scope that brings a strong focus on customer service and regional needs. The new trust will be controlled by BCE and will remain integral to Bell Canada's operations, ensuring that we retain control of core assets in the most capital efficient way.

The new trust, which will be headquartered in Atlantic Canada, is expected to own approximately 3.4 million local access lines, have approximately 400,000 high-speed Internet subscribers in six provinces, and manage the provision of all wireline, legacy data and Internet products for all residential and business customers located in its territory. The transition to the trust will be seamless for customers as products and services will continue to be sold under the Bell and Sympatico brands within the trust's operating territory in Ontario and Québec and under the Aliant and DownEast brands in Atlantic Canada.

At the same time, in partial exchange for its contribution to a subsidiary of the trust, Bell Canada will acquire Aliant Mobility and Aliant's DownEast Communications retail outlets. Furthermore, approximately $1.25 billion of Bell Canada debt will effectively be transferred to the trust.

Upon closing, BCE will hold a 73.5% indirect interest in the trust, which it expects to reduce to approximately 45% through a distribution of trust units to holders of BCE Inc. common shares. At closing, Aliant's minority shareholders will exchange their common shares for trust units, retaining a 26.5% interest in the new trust. Bell Nordiq Income Fund will continue to trade and operate independently.

BCE plans to establish a governance structure for the proposed income trust in line with comparable current income trust precedents, and will control and consolidate the financial results of the new trust. BCE will retain the ability to nominate a majority of the board of trustees of the trust and of the board of directors of the operating entities of the trust as long as it owns a 30 per cent or more interest in the trust. Also, BCE will have the ability to veto certain actions of the new trust and its operating entities as long as it owns a 20 per cent or more interest in the new trust. At closing, Bell Canada and the trust will enter into a number of outsourcing and commercial agreements pursuant to which Bell Canada will support the operations of the trust. Similar agreements will be entered into between the trust and Bell Canada to support Bell Canada's wireless operations in Atlantic Canada. The transaction is expected to close as early as the third quarter of 2006 but only once all closing conditions are satisfied and all necessary approvals and consents are obtained.

Key Developments

Canadian broadcast media rights for Olympics

On February 7, 2005, the International Olympic Committee (IOC) awarded the Canadian broadcast media rights for the Vancouver 2010 Winter Games and the London 2012 Summer Games to a consortium composed of CTV and Rogers Media Inc. The total fees payable by the consortium to the IOC for such rights is US$153 million.

Introduction of Bell Digital Voice

On September 8, 2005 Bell Canada introduced an enhanced VoIP product for consumers in the Greater Toronto Area and Hamilton and on October 25, 2005 in the greater Montréal area. The new service, Bell Digital Voice, uses existing phone lines to provide customers with advanced Internet-based calling features.

Other Developments

Labour Agreements

For information with respect to labour agreements entered into in 2005 see About BCE — Our employees.

2004 HIGHLIGHTS

The following events influenced our business in 2004 or were referred to in our 2004 AIF.

• On February 10, 2004, Bell Canada exchanged its 3.24% indirect interest in YPG LP and YPG General Partner Inc. (Yellow Pages Group) for units of the Yellow Pages Income Fund. On July 21, 2004, Bell Canada sold its remaining interest in the Yellow Pages Income Fund for net cash proceeds of $123 million.

• On March 30, 2004, Bell Canada and The Virgin Group announced plans to launch mobile voice and data services in Canada through a jointly-owned entity, Virgin Mobile Canada. Virgin Mobile Canada launched its services through a national rollout using our 1X digital wireless network on March 1, 2005.

• On May 20, 2004, Bell Canada filed a lawsuit against Manitoba Telecom Services Inc. (MTS) after MTS announced it would purchase Allstream Inc. Bell Canada sought damages and an injunction that would prevent MTS from breaching the terms and conditions of the commercial agreements it had with Bell Canada. On June 3, 2004, Bell Canada also filed a lawsuit against Allstream Inc. seeking damages related to the same announcement. On June 30, 2004, BCE Inc. reached an agreement with MTS to settle the lawsuits. The terms of the settlement included: a payment of $75 million by MTS to Bell Canada received on August 3, 2004 for unwinding various commercial agreements; the removal of contractual competitive restrictions to allow Bell Canada and MTS to compete freely with each other, effective June 30, 2004; the orderly disposition of our interest in MTS (our voting rights in MTS were waived after receiving the $75 million payment); and a premium payment to us by MTS, if there had been a change of control of MTS before January 1, 2006 and if there had been an appreciation in MTS' share price from the time of our divestiture to the time of any takeover transaction. On August 1, 2004, the MTS shares held by Bell Canada were transferred to BCE Inc. In late September 2004, BCE Inc. disposed of its 15.96% non-strategic interest in MTS. Total net cash proceeds from this transaction were $584 million.

• On May 21, 2004, Bell Canada acquired 100% of the outstanding shares of Infostream Technologies Inc., a systems and storage technology firm.

• On May 26, 2004, Bell Canada announced an agreement to purchase the Canadian operations of Vancouver-based 360 networks, a telecommunications service provider, for $293 million (including acquisition costs) in cash. The transaction was completed on November 19, 2004. The purchase included the shares of 360networks' subsidiary, Group Telecom, and certain related interconnected U.S. network assets. Following the purchase, Bell Canada sold the retail customer operations in Central and Eastern Canada to Call-Net Enterprises Inc. (Call-Net). For a share of the revenues, Bell Canada now provides network facilities and other operations and support services to Call-Net so Call-Net can service its new customer base. This transaction gave Bell Canada an extensive fibre network that includes leading-edge local facilities in Vancouver, Victoria, Calgary, Edmonton and other cities in Western Canada. Bell Canada also gained access to almost 200 office buildings in Western Canada.

• In June 2004, Bell Canada acquired Emergis' security business. This business provides organizations with the security infrastructure for their electronic service delivery needs to help ensure data is secure and viewed only by the appropriate individuals.

• In June 2004, Bell Canada announced an employee departure program that consisted of two phases. The first phase was an early retirement plan and the second phase was a departure plan. Under the early retirement plan, eligible employees chose to receive a package that included a cash severance, immediate pension benefits, an additional guaranteed pension payable up to 65 years of age, career transition services and post-employment benefits. Under the early departure plan, employees chose to receive a special cash allowance. Of the 7,000 eligible employees, 3,950 decided to take advantage of the early retirement plan and another 1,050 employees decided to take advantage of the early departure plan. A total of approximately 5,000 employees left the company, which represented approximately 11% of Bell Canada's total employee base (excluding Aliant). Almost all of the employees who chose to take advantage of the program left Bell Canada in 2004. The rest left during 2005.

• On June 9, 2004, Bell Canada launched Sympatico.MSN.ca in partnership with Microsoft Corporation (Microsoft). Sympatico.MSN.ca is a single portal combining the best features and Internet tools of MSN Canada Co. with the broadband content and innovative services of Sympatico.ca. At the same time, Bell Canada introduced Sympatico with MSN Premium, a custom-built version of the software featuring tools that enable a safer online experience, including pop-up ad blocking, spam filtering and parental controls.

• On June 16, 2004, BCE Inc. completed the sale of its 63.9% interest in Emergis for net cash proceeds of $315 million. Emergis was presented previously as a separate segment.

• On August 3, 2004, Bell Canada assumed 100% ownership of Bell West Inc. by purchasing the 40% interest held by MTS for $646 million.

• On August 16, 2004, Bell Canada reached a new four-year agreement with approximately 7,100 technicians represented by the CEP. This agreement will expire in November 2007.

• On September 16, 2004, Aliant's subsidiary, Aliant Telecom Inc. (Aliant Telecom) reached a new agreement with its approximately 4,300 unionized employees, represented by the Council of Atlantic Telecommunication Unions (CATU). They voted to accept a new collective agreement that will expire in December 2007, ending a labour disruption that began in April 2004.

• In October 2004, Aliant offered a voluntary Early Retirement Incentive Program (ERIP) to eligible employees, which was accepted by 693 employees, including 654 employees or 11% of the workforce of Aliant Telecom. Approximately 400 of the ERIP participants retired effective January 1, 2005, and the remainder left during 2005.

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• On October 18, 2004, Bell Canada was selected by the Vancouver Organizing Committee as its Premier National Partner for the 2010 Olympic and Paralympic Winter Games. The partnership continues through to 2012, securing the Canadian Olympic Team sponsorship rights to Torino in 2006, Bejing in 2008, Vancouver in 2010, London in 2012 and for two Pan-American Games. It provides Bell Canada with the opportunity to build its brand by associating with one of the world's strongest and most recognized brands.

2003 HIGHLIGHTS

The following events influenced our business in 2003 or were referred to in our 2003 AIF:

• On July 2, 2003, Bell Canada sold its 89.9% ownership interest in Certen Inc. to a subsidiary of Amdocs Limited for $89 million in cash.

• On September 8, 2003, Bell Canada announced that it was partnering with Nortel Networks to build Canada's most advanced next-generation network based on IP technology. Bell Canada expects to deliver the latest IP telephony and multimedia applications and services to Canadians under a comprehensive agreement with Nortel that includes a joint research and development initiative. On December 16, 2003, Bell Canada announced that it was adding Nortel optical network technology to its IP offering. This allows greater volumes of voice and data to travel at faster speeds over the Internet at lower costs.

• On October 20, 2003, Bell Canada and Lucent Technologies Canada Corp. announced their agreement to accelerate the delivery of Bell Canada's broadband services to more customers in Ontario and Québec.

• In December 2003, Aliant completed the sale of its 53.2% interest in Stratos Global Corporation. Aliant received $340 million ($320 million net of selling costs) in cash for the sale.

• On December 16, 2003, Bell Canada announced the creation of the Bell Canada Video Group. It is part of Bell Canada's consumer markets group and is responsible for Bell Canada's video initiatives. These include DTH satellite television, VDSL services and IPTV services.

• On December 17, 2003, Bell Canada announced that it had completed the sale of a 3.66% interest in Yellow Pages Group to the YPG Trust. Twelve million limited partnership units and 12 million common shares were sold to YPG Trust for a net cash consideration of $135 million.

• On December 17, 2003, we announced our multi-year plan to lead change in the industry and set the standard in the IP world while continuing to deliver on our goals of innovation, simplicity and service, and efficiency. Significant progress was made in 2005 in furthering our innovation goals.

• On January 19, 2004, Bell Canada and Cisco Systems Canada (Cisco) announced a strategic alliance to accelerate the creation, commercialization and delivery of a comprehensive suite of IP services.

In 2005, Bell Canada and Cisco worked together to enhance the performance and reliability of the Bell Canada IP network and related support systems. In addition, a co-selling program was initiated to allow joint planning of solutions for a group of leading retail customers.

THE REGULATORY ENVIRONMENT WE OPERATE IN

This section describes the legislation that governs our businesses, and provides highlights of government consultations and recent regulatory changes.

The CRTC, an independent agency of the Government of Canada, is responsible for regulating Canada's telecommunications and broadcasting services.

The CRTC may decide not to regulate all or part of certain services or classes of telecommunications services if it determines there is enough competition to protect the interests of users. The CRTC may also exempt broadcasting undertakings from complying with certain licensing and regulatory requirements if the CRTC is satisfied that complying with those requirements will not materially affect the implementation of Canadian broadcasting policy.

LEGISLATION THAT GOVERNS OUR BUSINESS

Bell Canada, Aliant Telecom and several of Bell Canada's direct and indirect subsidiaries and associated companies, including Bell Mobility and Bell ExpressVu, as well as CTV and certain of its direct and indirect subsidiaries are regulated by the CRTC. Other aspects of the businesses of Bell Canada, Bell Mobility and MT&T Mobility Inc. (MT&T Mobility), a subsidiary of Aliant Telecom, are regulated in various ways by federal government departments, in particular Industry Canada.

On February 23, 2005, the Government of Canada announced in its Budget 2005 that it would appoint a panel of eminent Canadians to review Canada's telecommunication policy and regulatory framework with the aim of ensuring that Canada's telecommunications industry continues to support Canada's long-term competitiveness.

On April 11, 2005, the Minister of Industry announced the creation of the Telecom Policy Review Panel to conduct a review of Canada's telecommunications policy and regulatory framework, and make recommendations. The panel conducted its review throughout the summer and fall of 2005, receiving nearly 200 submissions. It is not clear when the report will be released to the public.

On November 25, 2005, Bill C-37, An Act to Amend the *Telecommunications Act*, received Royal Assent. Bill C-37 provides for the establishment of a national Do Not Call List to reduce the volume of unsolicited telemarketing calls Canadians receive. It permits the CRTC to administer fines (Administrative Monetary Penalties, or AMPs) to parties who contravene the prohibitions regarding unsolicited telemarketing set out in the Bill and to be set out in the regulations to be established after the CRTC completes a public

proceeding which began on February 20, 2006. It also permits the CRTC to select a third party administrator to oversee the national Do Not Call List. The national Do Not Call List is expected to be operational in mid 2007.

Bell Canada Act

Under the *Bell Canada Act*, the CRTC must approve any sale or other disposal of Bell Canada voting shares that are held by BCE Inc., unless the sale or disposal would result in BCE Inc. retaining at least 80% of all of the issued and outstanding voting shares of Bell Canada.

Telecommunications Act

The *Telecommunications Act* governs telecommunications in Canada. It defines the broad objectives of Canada's telecommunications policy and gives the government the power to give general direction to the CRTC on any of these objectives. It applies to several of the Bell Canada companies and partnerships, including Bell Canada, Bell Mobility, NorthernTel, Northwestel, Télébec and Aliant Telecom and its affiliates.

Under the *Telecommunications Act*, all telecommunications common carriers must seek regulatory approval for all proposed tariffs for telecommunications services, unless the services are exempt or are not regulated. The CRTC may exempt an entire class of carriers from regulation under the *Telecommunications Act* if the exemption meets the objectives of Canada's telecommunications policy.

The *Telecommunications Act* includes the following ownership requirements for companies, such as Bell Canada, Aliant Telecom or Bell Mobility, that operate as telecommunications common carriers:

• they must be eligible to operate as Canadian carriers

• they must be Canadian owned and controlled corporations. Direct ownership must be at least 80% Canadian and indirect ownership, such as indirect ownership by BCE Inc., must be at least 66 2/3% Canadian

• they must not otherwise be foreign controlled

• at least 80% of the members of their board of directors must be Canadian.

BCE Inc. monitors and periodically reports on the level of non-Canadian ownership of its common shares.

Broadcasting Act

The *Broadcasting Act* assigns the regulation and supervision of the broadcasting system to the CRTC. Key policy objectives of the B *roadcasting Act* are to:

• protect and strengthen the cultural, political, social and economic fabric of Canada

• encourage the development of Canadian expression.

Most broadcasting activities require a broadcasting licence or broadcasting distribution licence from the CRTC. A corporation must meet the following ownership requirements to obtain a broadcasting or a broadcasting distribution licence:

• it must be Canadian owned and controlled. At least 80% of all outstanding and issued voting shares and at least 80% of the votes must be beneficially owned directly by Canadians

• it must not otherwise be controlled by non-Canadians

• at least 80% of the board of directors, as well as the chief executive officer, must be Canadian

• at least 66 2/3% of all outstanding and issued voting shares, and at least 66 2/3% of the votes of the parent corporation, must be beneficially owned and controlled, directly or indirectly, by Canadian interests.

If the parent corporation of a broadcasting licensee has fewer than 80% Canadian directors on its board of directors, a non-Canadian chief executive officer or less than 80% Canadian ownership, the parent corporation must demonstrate to the CRTC that it or its directors do not have control or influence over any of the broadcasting licensee's programming decisions.

Corporations must have the CRTC's approval before they can transfer effective control of a broadcasting licensee. The CRTC may impose certain requirements, including the payment of certain benefits, as a condition of the transfer.

Four of the Bell Canada companies' partnerships or subsidiaries — Bell ExpressVu, Aliant Telecom, Northwestel and Cablevision du Nord de Québec Inc., a Télébec subsidiary — have broadcasting distribution licences that allow them to offer services. Bell ExpressVu is permitted to offer services nationally. Aliant Telecom is permitted to offer services in Nova Scotia and New Brunswick. Télébec is permitted to offer services in specific areas of Ontario and Québec. Northwestel is permitted to offer services in specific areas of the Northwest Territories.

On January 31, 2006, the CRTC renewed Bell ExpressVu's pay-per-view licence for another full term, with no substantive changes to its conditions of licence. The new licence expires August 31, 2012.

On November 18, 2004, the CRTC issued Broadcasting Decision CRTC 2004-496, which approved Bell Canada's applications for licences to operate terrestrial broadcasting distribution undertakings (BDUs), using its wireline facilities, to serve large cities in Southern Ontario and Québec. Bell Canada was licensed under the same terms and conditions that apply to major cable operators, without any delays or other conditions that would negatively affect its ability to compete with them. The licences will be issued once Bell Canada informs the CRTC that it is ready to commence operations and will expire on August 31, 2011. Bell Canada is required to have the terrestrial BDUs operational no later than November 18, 2006, unless an extension of time is approved by the CRTC. On August 2, 2005, Bell Canada acquired certain assets and the residential cable business of Cable VDN operating in Montréal. Bell Canada advised the CRTC that it

was commencing operations in the Montréal service area under its terrestrial BDU licence and that under this licence it was continuing the cable operations of Cable VDN.

Bell ExpressVu's existing DTH distribution undertaking licence renewal was approved by the CRTC on March 31, 2004 for the period from April 1, 2004 to August 31, 2010.

Bell Globemedia's television operations have broadcasting licences issued by the CRTC. None of these is currently expired.

Radiocommunication Act

Industry Canada regulates the use of radio spectrum by Bell Canada, Bell Mobility, Aliant Telecom, MT&T Mobility and other wireless service providers under the *Radiocommunication Act*. Under the Act, Industry Canada ensures that:

• radio communication in Canada is developed and is operated efficiently

• the set up of, and any changes to, radio stations are orderly.

The Minister of Industry has the discretion to:

• issue radio licences

• set technical standards for radio equipment

• establish licensing conditions

• decide how radio spectrum is allocated and used.

Under the *Radiocommunication Regulations*, companies that are eligible for radio licences, such as Bell Canada, Bell Mobility and Aliant Telecom, must meet the same ownership requirements that apply to corporations under the *Telecommunications Act*.

The *Radiocommunication Act* contains provisions which make it a criminal offence to manufacture, offer for sale or sell any device used to decode an encrypted subscription signal in connection with unauthorized reception of satellite signals. On October 28, 2004, the Court of Québec ruled in *R. v. D'Argy and Theriault* that those provisions violate the freedom of expression rights enshrined in the *Canadian Charter of Rights and Freedoms (Charter)*. On March 31, 2005, the Québec Superior Court overruled the Court of Québec's decision and upheld the constitutional validity of these provisions. Accordingly, it remains a criminal offence throughout Canada to manufacture, offer for sale or sell any device used to engage in unauthorized reception of satellite signals. The defendants have been granted leave to appeal the ruling to the Québec Court of Appeal. Bell ExpressVu, Bell Canada, the Canadian Association of Broadcasters, and members of Canada's production community continue to encourage the Government of Canada to strengthen the *Radiocommunication Act* in order to combat the black market in signal theft.

KEY REGULATORY ISSUES

This section describes key regulatory issues which have been addressed in past years that have influenced our business.

Second price cap decision

In May 2002, the CRTC issued decisions relating to new price cap rules that govern incumbent telephone companies for the four-year period, starting in June 2002. These decisions:

• set a 3.5% productivity factor on many capped services, which has required Bell Canada to reduce its prices for these services

• extended price cap regulation to more services

• reduced the prices that incumbent telephone companies can charge competitors for services

• set procedures for enforcing standards of service quality

• effectively froze rates for basic residential services.

The CRTC also established a deferral account, and on March 24, 2004, initiated a public proceeding inviting proposals on the disposition of the amounts accumulated in the accounts of the incumbent telephone companies during the first two years of the price cap period.

On February 16, 2006, the CRTC issued Telecom Decision 2006-9 in which it set out guidelines for the disposition of funds in the incumbent telephone companies' deferral accounts which were established by the second price cap decision. It is estimated that the accumulated balance in Bell Canada and Aliant Telecom's deferral accounts as at May 31, 2006 will be $480.5 million for Bell Canada and $21.8 million for Aliant Telecom. The future annualized recurring deferral account obligation as at the same date is estimated to be $81.5 million for Bell Canada and $2.2 million for Aliant Telecom.

The CRTC has concluded that the incumbent telephone companies should clear the accumulated balances in their deferral accounts, to the greatest extent possible, as follows:

• by expanding broadband services to rural and remote areas that are currently unserved and would not otherwise be served. The deferral account would fund the uneconomic portion of the cost of this multi-year broadband expansion program. Incumbent telephone companies are directed to file their broadband expansion proposals, established in consultation with provincial government agencies responsible for broadband initiatives, by June 30, 2006. Detailed CRTC requirements for filing these broadband expansion proposals will be specified by the CRTC.

• by improving the accessibility to telecommunications services for persons with disabilities, using a minimum of 5% of the incumbent telephone companies' deferral account balances. Incumbent telephone companies are to consult with the appropriate advocacy organizations for persons with disabilities to determine the best use of these funds and file their proposals by June 30, 2006.

• any balances remaining in the incumbent telephone companies' deferral accounts after these two programs will be rebated to these companies residential local customers in non-high cost serving areas. The amount and timing of the rebate, if any, cannot be determined at this time.

This Decision also indicates that incumbent telephone companies' future annual deferral account obligations are to be eliminated by reducing monthly prices for primary exchange service and optional local services for residential customers in non-high cost serving areas. Bell Canada, Aliant Telecom and certain other incumbent telephone companies have been directed to file their rate proposals by May 15, 2006 and implement them on June 1, 2006. Incumbent telephone companies also are directed to file updated deferral account balances by May 15, 2006.

Finally, the Decision notes that the extension of the price cap regime to May 31, 2007, discussed in further detail below, will result in an additional annual deferral account obligation. The incumbent telephone companies can choose to address these additional amounts in their May 15, 2006 price reduction filings.

On May 13, 2005 the CRTC issued a Public Notice calling for comments on a proposal to extend the current price cap regime, which is to expire on May 31, 2006, for another two years. Final reply comments were submitted by incumbent telephone companies and other interested parties to the CRTC on June 27, 2005. On December 16, 2005, the CRTC issued Decision 2005-69 in which it extended the current price cap regime without changes for a period of one year, to May 31, 2007. In the decision, the CRTC also indicated that it will initiate a proceeding to review the existing price regulation regime following the release of the decision in the proceeding initiated by *Forbearance from regulation of local exchange services* , Public Notice 2005-2, which is expected to be issued in March 2006.

Competitor Digital Network Service

On February 3, 2005, the CRTC released Telecom Decision 2005-6 concerning competitor digital network (CDN) services. This decision set the rates, terms and conditions that Bell Canada and the other incumbent telephone companies must follow when providing digital network services to their competitors. This decision affected both Bell Canada and Aliant Telecom as providers of CDN services in their own operating territories and as purchasers of those services elsewhere in Canada.

The CRTC determined that CDN services should include not only digital network access components but also include intra-exchange facilities, inter-exchange facilities in certain metropolitan areas, channelization and co-location links (expanded CDN services). However, other than for the low speed accesses and link components, the CRTC determined that these expanded CDN services should not be priced as essential facilities but will be priced to include "appropriate mark-ups" so as to encourage competitors to construct their own facilities. Furthermore, on January 6, 2006 the CRTC released Decision 2006-1 where it clarified that in order to qualify for CDN service a competitor's circuit must terminate at a point of presence located in Canada.

There are two important financial aspects to note in this decision. First, the prices for all CDN services were applied on a going-forward basis, effective the date of the decision, and Bell Canada will be compensated for the resulting revenue losses from the deferral account. Secondly, Bell Canada will also be compensated through the deferral account for the application of reduced rates on a retroactive basis for the CDN access components that were tariffed at interim rates prior to the decision. Bell Canada has filed its estimated drawdown from the deferral account as a result of this decision.

In a letter dated September 1, 2005, the CRTC postponed the due date for the filing of updated estimates until certain outstanding issues related to CDN services currently before the CRTC are resolved.

Retail quality of service indicators

On March 24, 2005, the CRTC released Telecom Decision 2005-17 which, among other things, established the rate adjustment plan to be applied when incumbent telephone companies do not meet mandated standards of quality of service provided to their retail customers. As a result of this decision, incumbent telephone companies are subject to a penalty mechanism when they do not meet one or more service standards for their retail services. For Bell Canada, this maximum potential penalty amount equates to approximately $245 million annually, based on 2004 revenues. For the period during which this plan was interim, July 1, 2002 to December 31, 2004, Bell Canada did not have to pay any penalties. Regarding the current penalty period of January 1 to December 31, 2005, the CRTC standard for several indicators was not met on an annual average basis, as a direct result of the Entourage strike (discussed under the heading *About BCE – Our employees*). The strike commenced on March 28, 2005 and all employees were to have returned to work by August 8, 2005. Given that this situation meets the criteria stipulated by the CRTC for force majeure type exclusions to the penalty plan, Bell Canada has requested that the CRTC approve the application made by Bell Canada on December 5, 2005 for the purpose of excluding below-standard strike-related results.

For Aliant Telecom, the CRTC determined that it did not meet certain service standards during the period January 1, 2004 to December 31, 2004. Applying the rate adjustment plan would result in an estimated penalty of $3 million. Aliant Telecom has applied to the CRTC for an exclusion from having to pay a penalty due to its labour disruption in 2004, as allowed for in the decision. The CRTC has not yet ruled on this application. Regarding the penalty period of January 1 to December 31, 2005, the CRTC standard for two indicators was missed on an annual average basis, resulting in a possible penalty of approximately $2 million.

Decision on incumbent affiliates

On December 12, 2002, the CRTC released its decision on incumbent affiliates, which requires Bell Canada and its carrier affiliates to receive CRTC approval on contracts that bundle tariffed and non-tariffed products and services. This means that:

• all existing contracts that bundle tariffed and non-tariffed products and services must be filed with the CRTC for approval

• all new contracts that bundle tariffed and non-tariffed products and services must receive CRTC approval before they are carried out

• carrier affiliates must meet the same approval requirements as Bell Canada on products and services they offer in Bell Canada's operating territory.

On September 23, 2003, the CRTC issued a decision that requires Bell Canada and its carrier affiliates to include a detailed description of the bundled services they provide to customers when they file tariffs with the CRTC. The customer's name will be kept confidential, but the pricing and service arrangements it has with the Bell Canada companies will be available on the public record.

This decision increased the regulatory burden for Bell Canada and its carrier affiliates at both the wholesale and retail levels. Following the dismissal of its appeal by the Federal Court of Canada, Bell Canada has submitted tariffs for CRTC approval for those contracts with bundles that have not yet expired in order to provide more detailed descriptions of the bundled services.

Application seeking consistent regulation and regulation for VoIP

On November 6, 2003, Bell Canada filed an application requesting that the CRTC start a public hearing to review how similar services offered by cable companies and telephone companies are regulated. This would allow consistent rules to be developed that recognize and support the growing competition between these sectors. Bell Canada also requested that this proceeding address any rules that might be needed to govern VoIP services provided by cable companies and others.

After conducting a public proceeding relating to VoIP, on May 12, 2005, the CRTC released Telecom Decision 2005-28 which determined the way the CRTC will regulate VoIP services. The CRTC determined that VoIP services (other than peer-to-peer services, defined in the decision as IP communications services between two computers) provided by Bell Canada and other incumbent telephone companies will be regulated in the same way as traditional telephone services. As a result of this decision, VoIP services that use telephone numbers that conform to the North American Numbering Plan, and that provide universal access to and/or from the Public Switched Telephone Network will, for incumbent telephone companies, be treated as regulated local exchange services. Accordingly, tariffs have to be filed by incumbent telephone companies, but not by their competitors, when they provide customers with local VoIP services using a telephone number associated with that incumbent telephone company's territory. In addition, the winback rules will apply, which means that incumbent telephone companies cannot attempt to directly contact a former residential local service customer for a period of 12 months from the time the customer takes a traditional local telephone service or VoIP service from a competitor. Other restrictions on promotions and bundling which apply to traditional local wireline services also apply to VoIP. These regulatory requirements could reduce Bell Canada's and Aliant Telecom's flexibility to compete with both traditional and new competitors.

Also as a result of Telecom Decision 2005-28, incumbent telephone companies as well as competitive local exchange carriers will have to fulfill, in relation to VoIP services, other requirements that apply to traditional telephone services, such as local number portability, allowing customers to use any long distance provider of their choice, listing telephone numbers in the directory associated with the local telephone number chosen by the customer, offering services for the hearing impaired, and privacy safeguards. These regulatory requirements could increase operational costs and reduce Bell Canada's and Aliant Telecom's flexibility to compete with resellers.

In 2005, Bell Canada introduced three retail VoIP services in Québec and Ontario. Bell Digital Voice Lite and Bell Digital Voice are offered to residential customers and Business IP Voice is offered to business customers. These services are offered pursuant to tariffs which have received interim approval from the CRTC. CRTC public processes relating to these filings were held in 2005 and decisions on final approval of the tariffs are expected in March 2006. The CRTC has, on an interim basis, permitted Bell Canada to file VoIP tariff notices for the CRTC's approval on a confidential basis, which provide for minimum and maximum rates associated with each proposed VoIP service plan. Once the minimum and maximum rates are approved, for all future price changes within that range, Bell Canada can issue new tariff pages on their effective date. No additional CRTC approvals are required for price changes within the ranges. The CRTC has also, on an interim basis, permitted Bell Canada to price its Bell Digital Voice service differently on a province-wide basis in Ontario and Québec. A final decision from the CRTC regarding these tariff notices could result in a different outcome.

On July 5, 2005, the Province of Saskatchewan filed a Petition with the Governor in Council requesting that it address the inequities of Decision 2005-28 by directing the CRTC to ensure that all companies offering VoIP services in Saskatchewan are competing on a level playing field. Bell Canada together with Aliant Telecom, Telus Communications, Télébec and SaskTel Telecommunications (SaskTel) have jointly filed a Petition with the Governor in Council on July 28, 2005 to vary the Decision to eliminate the economic regulation of VoIP services, removing inequities in the regulatory framework for VoIP services applicable to the incumbent telephone companies, including the requirement to file and obtain approval of tariffs and the application of the bundling rules, promotions restrictions and winback rules.

Winback Rules

On June 13, 2005 Bell Canada, together with Telus Communications and SaskTel, sought leave from the Federal Court of Appeal to appeal the winback rules included in Telecom Decision 2005-28 on the grounds that such winback rules constitute a violation of Bell Canada's,

and its customers', freedom of expression, which is a freedom protected under the *Charter*. On December 7, 2005, Bell Canada and the other applicants applied to the Federal Court of Appeal for permission to adjourn, or suspend, their leave to appeal application. The reason underlying this request to adjourn is a separate, on-going Bell Canada and SaskTel application to the CRTC. In their application before the CRTC, Bell Canada and SaskTel have requested that the CRTC discontinue the winback rules on the grounds that these rules violate the *Charter* guarantees to freedom of expression of incumbent local telephone companies and their customers. In another CRTC application dated November 23, 2005, Bell Canada applied to the CRTC to stay the winback rules in Bell Canada's traditional local territories. The records of the Bell Canada and SaskTel winback application, and Bell Canada's stay application, are closed and decisions are pending.

Forbearance from regulation of local exchange services

On April 28, 2005, the CRTC issued a Public Notice on a framework for forbearance from the regulation of residential and business local exchange services offered by the incumbent telephone companies. The rules resulting from this Public Notice are intended to clarify the conditions under which Bell Canada and the other incumbent telephone companies will be able to seek regulatory forbearance for local exchange services. The CRTC will also address Aliant Telecom's April 2004 application which requested forbearance from the regulation of specified residential wireline local services in 32 exchanges. The CRTC plans to issue a decision in March 2006. Bell Canada's and the other incumbent telephone companies' flexibility to compete could be adversely affected in the event that the CRTC, in its decision, establishes onerous conditions to be satisfied in order for the incumbent telephone companies to obtain regulatory forbearance of residential and business local exchange services.

Price floor safeguards for retail services

On April 29, 2005, the CRTC issued its decision on price floor safeguards (minimum prices for the regulated services of incumbent telephone companies) and other related issues. In this decision, the CRTC rejected most of its preliminary proposals (set out in its October 23, 2003 Public Notice on changes to minimum prices) to change the pricing and bundling rules that apply to the incumbent telephone companies and modified others. The CRTC's preliminary proposals, if implemented, would have resulted in significantly higher price floors for services offered to residential, small and medium business and enterprise customers. The CRTC also denied an application by Rogers to prohibit the incumbent telephone companies from bundling residential tariffed services with forborne services.

Although the CRTC decision rejected most of its preliminary proposals, it made minor changes to the imputation tests to be satisfied by incumbent telephone companies with respect to stand-alone services, generally offered in bundles, and term and volume contracts. In some circumstances, the changes will, in the future, result in higher price floors for new services and bundles which could negatively limit Bell Canada's ability to compete.

Application to Change Bundling Rules

On September 2, 2005, Bell Canada applied to the CRTC for a modification of the bundling rules applicable to customer specific arrangements (CSAs), which are arrangements tailored to a particular customer's needs for the purpose of customizing the offering in terms of rate structure and levels.

At present, the CRTC requires that a CSA involving both tariffed and non-tariffed services (Mixed CSAs) be filed for approval with the CRTC before it can be provided to customers. Bell Canada's proposal would exempt a Mixed CSA from the bundling rules and associated tariff requirements, provided that the revenues from a CSA exceed the price of the tariffed components of the CSA and provided that the CSA is not part of a practice designed to circumvent tariffs.

Wireless Number Portability

The Government of Canada in its 2005 Budget announced that it intended to ask the CRTC to implement wireless number portability. Number portability enables customers to retain the same phone number when changing service provider within the same local serving area. On September 16, 2005 the CRTC issued Telecom Public Notice CRTC 2005-14, *Implementation of Wireless Number Portability*, which dealt with a number of preliminary regulatory issues that are required to enable portability to proceed.

On December 20, 2005, the CRTC released Telecom Decision 2005-72. Among other things the decision directed Bell Mobility, Rogers Wireless and Telus Mobility to implement wireless number portability in Alberta, British Columbia, Ontario and Quebec by March 14, 2007. This accelerated time frame will be challenging for Bell Mobility and the rest of the wireless industry to meet. On February 6, 2006, the CRTC issued Telecom Public Notice 2006-3, *Regulatory issues related to the implementation of wireless number portability* , a proceeding which will address a wide range of issues associated with the implementation. Comments in response to the Public Notice are to be filed on February 27, 2006 with reply comments due on March 6, 2006.

Access to Bell Canada Loops For Competitor Local Exchange Carriers' Customers Served Via Remotes

On September 2, 2005, Rogers Telecom submitted an application pursuant to Part VII of the *CRTC Telecommunications Rules of Procedure* requesting that the CRTC direct Bell Canada to make unbundled loops, which are transmission paths between the users' premises and the central office that are provided separately from other components, available to competitors in a timely manner in certain specified areas

where Rogers Telecom is present. On October 3, 2005, Bell Canada provided its response to the Rogers Telecom application. In Bell Canada's response it explained the reasons why in some areas where competitors are present and the competitors' potential end customer is served via a Bell Canada remote, unbundled loops should not have to be provided unless Bell Canada is compensated by competitors for the costs it incurs on their behalf.

The cost to equip Bell Canada's network in order to provide unbundled loops to competitors in locations where a potential competitor's end customer is currently served via a Bell Canada remote could be significant should the CRTC grant Rogers Telecom's request. It is anticipated that the CRTC will institute a further process to examine this matter prior to rendering a decision.

CONSULTATIONS

From time to time, Industry Canada initiates proceedings that allow members of the telecommunications industry to comment on technical and policy issues. This ensures that Industry Canada takes into consideration the opinions of the industry when it is making decisions that affect the industry.

Foreign ownership review

Industry Canada asked the House Standing Committee on Industry, Science and Technology to conduct a review to determine whether the current Canadian ownership requirements included in the *Telecommunications Act* and associated regulations should be changed. The committee released its report in April 2003.

On September 25, 2003, the Minister of Industry responded to the report promising to:

• table an amendment as early as possible to the Act requiring it to be reviewed every five years because of the rapid, unprecedented technological changes in the industry

• launch an analysis of the conflicting recommendations on foreign investment restrictions made by the committee and the Standing Committee on Canadian Heritage in its June 11, 2003 report, *Our cultural sovereignty*

• continue working with members of Parliament to review the governance structure for the telecommunications and broadcasting sectors, to ensure that they are effective in meeting the needs of Canadians and industry stakeholders.

Licences and changes to wireless regulation

Companies must have a spectrum licence to operate cellular, PCS and other radio-telecommunications systems in Canada. The Minister of Industry awards spectrum licences, through a variety of methods, at his or her discretion under the *Radiocommunication Act*.

As a result of an Industry Canada decision, the cellular and PCS licences under which Bell Mobility, Aliant Telecom and MT&T Mobility provide service, which would have expired on March 31, 2006, will now expire in 2011. The PCS licences that were awarded in the 2001 PCS auction will expire on November 29, 2011. As a result, these Bell Canada companies' cellular and PCS licences are now classified as "spectrum licences", that is licences issued on a geographic basis rather than on a radio site-by-radio site basis, with a standard 10-year licence term.

In October 2001, the Minister of Industry announced plans for a national review of Industry Canada's procedures for approving and placing wireless towers and radio towers in Canada, including a review of the role of municipal authorities in the approval process. The final report from the National Antenna Tower Policy Review Committee was filed with Industry Canada in September 2004. Industry Canada released its report in February 2005. Among other things, the report recommends that the authority to regulate the siting of antennae and supporting structures remain exclusively with the Government of Canada. In August 2005, Industry Canada convened a meeting of wireless carriers and broadcasters and presented a revised draft policy for comment. The wireless and broadcasting industries both have a number of concerns with the draft policy and are now working with Industry Canada to attempt to resolve these concerns. Government – industry consultative working group meetings, examining specific details of the draft policy, were convened in December 2005 and January 2006. It is not possible to predict at this time if or when the final policy will be issued. If the final policy requires more municipal or public consultation in the approval process, there is a risk that it could significantly slow the expansion of wireless networks in Canada.

Lawful access consultation

In August 2002, the federal government started a consultation to consider the access law enforcement agencies have to information and communications, including wireless communications. The Government's proposals, which were not precisely defined in the consultation, could require telecommunications service providers, including wireline and wireless carriers and ISPs, to invest significant capital and incur significant ongoing expenses to comply with the proposed requirements.

In the fall of 2003, the Government provided more detail about its proposals. This included proposing exemptions for small ISPs and clarifying that service providers would not have to pay to upgrade the equipment that they have in service.

The Government also held meetings with law enforcement agencies and service providers to discuss recovering the costs of intercepting telecommunications, and providing transmission logs and related data to law enforcement and national security agencies. These agencies are proposing that service providers absorb all of these costs.

On November 15, 2005, legislation outlining capability requirements and rules for recovering costs was introduced. The legislation died on the Order Paper when the Government fell on November 28, 2005.

LEGAL PROCEEDINGS WE ARE INVOLVED IN

We become involved in various claims and litigation as a part of our business. This section describes important legal proceedings that you should be aware of. While we cannot predict the final outcome of the claims and litigation described below or of any other pending claims and litigation at March 1, 2006, based on the information currently available, management believes that the resolution of these claims and litigation will not have a material and negative effect on our consolidated financial position or results of operation. Based on the information currently available, we believe that we have strong defenses and we intend to vigorously defend our position.

LAWSUITS RELATED TO BELL CANADA

Purported Class Action Concerning Wireless Access Charges

On August 9, 2004, a statement of claim was filed under the *Class Actions Act* (Saskatchewan) in the Court of Queen's Bench, Judicial Centre of Regina, Saskatchewan against wireless communications services providers, including Bell Mobility and Aliant Telecom, by certain alleged customers or former customers of communications service providers. The lawsuit has not been certified as a class action and it is too early to determine whether it will qualify for certification.

The statement of claim alleges breach of contract and duty to inform, breach of warranties and covenants, deceit, misrepresentation, negligence, wrongful acts and omissions, collusion, and breach of statutory duty or obligation under the *Competition Act* (Canada), in connection with certain "system access fees" and "system licensing charges" invoiced by wireless communications service providers to their customers. The plaintiffs seek unspecified damages and punitive damages. The Saskatchewan action seeks certification of a national class encompassing all customers of wireless communications service providers wherever resident in Canada.

Plaintiff's counsel has commenced similar actions in all of the other provinces (except Prince Edward Island). These actions are not being pursued by the plaintiffs, at this time, pending a decision on certification in Saskatchewan.

Purported Class Action Concerning Bell Mobility

Billing System

On October 28, 2004, a motion seeking certification to proceed as a class action against Bell Mobility was filed with the Québec Superior Court. The lawsuit has not been certified to proceed as a class action and it is too early to determine whether it will qualify for certification.

The lawsuit was filed on behalf of all physical persons residing in the Province of Québec, who entered into a contract with Bell Mobility for the provision of wireless telephone services, and alleges that such persons have unjustly incurred expenses as a result of billing errors made by Bell Mobility or as a result of Bell Mobility wrongfully disconnecting service to such customers. In addition, to the reimbursement of such expenses, the class action would, if certified, also seek payment of damages by Bell Mobility in the amount of $100 per class member for inconvenience as well as punitive damages in the amount of $200 per class member.

Purported Class Action Concerning Bell Express Vu

Late Payment Charges

On September 29, 2005, a statement of claim was filed under the *Class Proceedings Act, 1992* (Ontario) in the Ontario Superior Court of Justice against Bell ExpressVu by certain alleged customers of Bell ExpressVu. The lawsuit has not been certified as a class action and it is too early to determine whether it will qualify for certification.

The statement of claim alleges that the interest and late payment fees charged by Bell ExpressVu to customers whose accounts are in arrears are in excess of the effective annual rate of interest permitted by certain provisions of the *Criminal Code* (Canada). The plaintiffs seek an order requiring Bell ExpressVu to repay all interest and late payment fees paid to Bell ExpressVu by the purported class of plaintiffs. In addition to the reimbursement of such amounts, the class action would, if certified, also seek payment of punitive damages by Bell ExpressVu in the amount of $10 million.

Videotron Litigation

On August 31, 2005, a statement of claim was filed in Québec Superior Court against Bell ExpressVu by Vidéotron ltée., Vidéotron (Régional) ltée and CF Cable TV Inc. (a subsidiary of Vidéotron ltée). In the statement of claim, the plaintiffs have alleged that Bell ExpressVu has failed to adequately protect its system against signal piracy, thereby depriving the plaintiffs of subscribers who, but for their alleged ability to pirate Bell ExpressVu's signal, would be subscribing to plaintiffs' services. On November 4, 2005, the plaintiffs amended their statement of claim to increase the amount of damages claimed from $1 million to approximately $49.5 million for profits allegedly lost over the last three years, $314.7 million for alleged future losses and $10 million in punitive damages.

Purported Class Action Concerning Bell Distribution Inc. (BDI) decision not to proceed with a Wireless Income Fund transaction and changes to Dealer Agreements and/or the Remuneration Program

Bell Canada received a letter of demand dated January 30, 2006 from the Independent Communication Dealer Association of Canada and its Bell independent dealers (Demand Letter). The Demand Letter is in response to BDI's letter of January 18th, 2006 to 6223141 Canada Inc. (Purchaser) advising of its decision not to proceed with a transaction to include its corporate store retail operations in an income trust, not to consent to the sale of the assets of the independent dealer retail stores to the Purchaser and not to consent to the assignment of the dealer agreements to the Purchaser.

The Demand Letter alleges that BDI's refusal to consent to the sales and the assignments is unreasonable. The letter demands that the consents be given and threatens recourse by way of injunction and/or damages for loss of opportunity caused to each Dealer, which are estimated to exceed $135,000,000. The Demand Letter also threatens a claim for damages from BDI in relation to changes it effected since January 2005 which were allegedly contrary to the dealer agreements and/or the remuneration program and which were allegedly effected to reduce the value of the dealer independent stores. The Bell dealers estimate these damages to be in excess of $50,000,000.

Wage Practices investigation

Complaints filed in 1994 with the Canadian Human Rights Commission by the CTEA and CEP on behalf of unionized employees of Bell Canada alleging wage discrimination in negotiated wages were referred in 1996 to the Canadian Human Rights Tribunal for inquiry. Bell Canada challenged the institutional independence of the Canadian Human Rights Tribunal by judicial review proceedings in The Federal Court of Canada.

On November 2, 2000, the Federal Court of Canada allowed Bell Canada's application for judicial review. The court found that the tribunal lacked institutional independence and prohibited further proceedings in the matter. Hearings before the tribunal into the merits of the case were suspended.

The Canadian Human Rights Commission appealed this decision, which was overturned by the Federal Court of Appeal. On May 24, 2001, Bell Canada filed for leave to appeal the Federal Court of Appeal decision to the Supreme Court of Canada. Hearings before the tribunal resumed in September 2001.

In September 2002, Bell Canada announced a settlement with the CTEA, the union representing the majority of employees involved in the dispute. The proceedings relating to employees represented by the CEP are continuing.

The Supreme Court of Canada heard Bell Canada's appeal of the Federal Court of Appeal decision in January 2003 and dismissed it in June 2003. The decision did not address the merits of the case.

The tribunal has resumed hearings and they are ongoing. The parties entered into mediation in June 2005 which is continuing.

LAWSUITS RELATED TO TELEGLOBE

Teleglobe lending syndicate lawsuit

On July 12, 2002, a statement of claim was issued against BCE Inc. in the Ontario Superior Court of Justice by ABN AMRO Bank N.V., Bank of Montreal, Bank of Tokyo-Mitsubishi (Canada), Bayerische Landesbank Girozentrale, BNP Paribas (Canada), La Caisse Centrale Desjardins du Québec, CIBC, CIBC, N.Y. Agency, Citibank, N.A., Credit Suisse First Boston Canada, Credit Suisse First Boston, Export Development Canada, HSBC Bank Canada, JPMorgan Chase Bank, Laurentian Bank of Canada, Merrill Lynch Capital (Canada) Inc., Merrill Lynch Capital Corporation, National Bank of Canada, Royal Bank of Canada, Société Générale, The Bank of Nova Scotia, and The Toronto-Dominion Bank.

The plaintiffs sought damages of US$1.19 billion, plus interest and costs, from BCE Inc. They alleged that these damages are equal to the amount they advanced as members of the Teleglobe and Teleglobe Holdings (U.S.) Corporation (together referred to in this section as Teleglobe) lending syndicate. The plaintiffs represented approximately 95.2% of the US$1.25 billion that the members of that lending syndicate advanced.

The plaintiffs' claim is based on several allegations, including that:

• the actions and representations of BCE Inc. and its management, in effect, amounted to a legal commitment that BCE Inc. would repay the advances

• the court should disregard Teleglobe as a corporate entity and hold BCE Inc. responsible to repay the advances as Teleglobe's alter ego.

On September 16, 2003, BCE Inc. filed its statement of defence relating to this action.

On November 2, 2004, two of the plaintiffs, Canadian Imperial Bank of Commerce and Canadian Imperial Bank of Commerce, N.Y. Agency, which had advanced approximately US$104 million to Teleglobe, filed a notice of discontinuance with the Court and are therefore no longer plaintiffs in this action.

On May 3, 2005, following the launch of the BNP Paribas (Canada) lawsuit described below, BNP Paribas (Canada), which had advanced approximately US$50 million to Teleglobe, filed a notice of discontinuance with the Court and is therefore no longer a plaintiff in this action.

Following these discontinuances, the damages sought by the remaining plaintiffs will amount to approximately US$1.04 billion, plus interest and costs, representing approximately 83% of the US$1.25 billion that the members of the lending syndicate advanced to Teleglobe.

BNP Paribas (Canada) lawsuit

On December 23, 2004, BNP Paribas (Canada), one of the plaintiffs in the Teleglobe lending syndicate lawsuit action against BCE Inc., filed a statement of claim with the Ontario Superior Court of Justice. The action is against BCE Inc. and five former directors of Teleglobe Inc. The statement of claim was served on the defendants, subject to their right of challenging jurisdiction, on April 20, 2005. The statement of claim alleges oppression against the former directors and breach of contract against BCE Inc. BNP Paribas (Canada) seeks US$50 million in damages. Teleglobe Inc. was at the relevant time a subsidiary of BCE Inc. Pursuant to standard policies and subject to applicable law, the five former directors of Teleglobe Inc. are entitled to seek indemnification from BCE Inc. in connection with this lawsuit.

On September 15, 2005, the defendants filed a motion challenging the Court's jurisdiction on the basis that Québec is the only convenient forum for adjudication of the plaintiff's claims.

Teleglobe Unsecured Creditors Lawsuit

A lawsuit was filed in the United States Bankruptcy Court for the District of Delaware against BCE Inc. and ten directors and officers of Teleglobe Inc. and certain of its subsidiaries on May 26, 2004. The plaintiffs are comprised of Teleglobe Communications Corporation, certain of its affiliated debtors and debtors in possession, and the Official Committee of Unsecured Creditors of these debtors. The lawsuit alleges breach of an alleged funding commitment of BCE Inc. towards the debtors, misrepresentation by BCE Inc., and breach and aiding and abetting breaches of fiduciary duty by the defendants.

By order dated September 8, 2004, the automatic reference of this action to the Bankruptcy Court was withdrawn and the action is now pending in the District Court for the District of Delaware. On September 15, 2004, BCE Inc. and the other defendants filed a motion to dismiss the action for various reasons, including lack of standing. On March 23, 2005, the District Court for the District of Delaware denied the defendants' motion to dismiss because the Court believes the case requires a fact-intensive analysis. The trial is currently scheduled to commence on June 19, 2006.

VarTec lawsuit

On December 2, 2002, VarTec Telecom, Inc. and VarTec Holding Company (together referred to in this section as VarTec) filed a lawsuit against BCE Inc., BCE Ventures Inc. and the President of BCE Ventures Inc. in the United States District Court for the Northern District of Texas (Dallas division).

The claim alleges fraud and violation of the anti-fraud provisions of the United States *Securities Exchange Act* of 1934 relating to VarTec's purchase of Excelcom, Inc., Excel Telecommunications (Canada) Inc. and Telco Communications Group, Inc. from Teleglobe Inc. and its subsidiaries (together referred to in this section as Teleglobe).

Among other things, the complaint alleges that the defendants misrepresented Teleglobe's financial status and its ability to assume certain liabilities related to the transaction. The complaint claims that Teleglobe's liabilities to VarTec from the transaction could be more than US$250 million. It also seeks punitive damages, but does not state an amount.

In February 2003, VarTec amended its December 2, 2002 complaint by removing a series of causes of action previously included in the complaint, including breach of contract, and that the court should disregard Teleglobe as a corporate entity and hold BCE Inc. responsible for its liabilities as Teleglobe's alter ego.

On March 2, 2003, BCE Inc., BCE Ventures Inc. and the President of BCE Ventures Inc. filed a motion:

• to dismiss the action because of improper venue and for failure to state a claim for which relief may be granted and/or failure to plead fraud claims with sufficient particularity

• to strike VarTec's jury demand.

In the hearing held on September 26, 2003, the United States District Court for the Northern District of Texas indicated that if VarTec did not ask to transfer the action to the District of Columbia, it would enter an order dismissing the action for improper venue. On September 29, 2003, VarTec filed a motion to transfer the action to the United States District Court for the District of Columbia. This motion was granted on October 9, 2003. As a result, the United States District Court for the District of Columbia will decide the motion to dismiss the action and to strike Vartec's jury demand.

Kroll Restructuring lawsuit

On February 26, 2003, BCE Inc. was informed that Kroll Restructuring Ltd., in its capacity as interim receiver of Teleglobe Inc., had filed a notice of action in the Ontario Superior Court of Justice against five former directors of Teleglobe Inc. This lawsuit relates to Teleglobe Inc.'s redemption of its third series preferred shares in April 2001 and the retraction of its fifth series preferred shares in March 2001.

The statement of claim was filed on March 26, 2003 and was served to each of the directors in August and September 2003. On April 16, 2004, the defendants filed their statement of defense.

The plaintiff is seeking a declaration that the redemption and retraction were prohibited under the *Canada Business Corporations Act* and that the five former directors should be held jointly and severally liable to restore to Teleglobe Inc. all amounts paid or distributed on these transactions. These amounts total approximately $661 million, plus interest.

While BCE Inc. is not a defendant in this lawsuit, Teleglobe Inc. was a subsidiary of BCE Inc. when the redemption and retraction took place. Under standard policies and subject to applicable law, the five former Teleglobe Inc. directors are entitled to seek indemnification from BCE Inc. in connection with this lawsuit.

Teleglobe Plan Administrator Lawsuit

On November 16, 2005, Kathy Morgan, in her capacity as Plan Administrator for Teleglobe Inc., filed a lawsuit in the Ontario Superior Court of Justice against BCE Inc. and seven former directors of Teleglobe Inc.. The plaintiff is seeking a declaration that Teleglobe Inc. and its creditors have been oppressed by the former directors of Teleglobe Inc. and by BCE Inc. within the meaning of the *Canada Business Corporations Act*. The plaintiff is also seeking a declaration that the former directors of Teleglobe Inc. breached their fiduciary duty to Teleglobe Inc. and failed to act in accordance with the standard of care prescribed under the *Canada Business Corporations Act*.

The plaintiff is seeking compensation for oppression in the amount of $3 billion and damages for breach of fiduciary duty in the amount of $3 billion, in each case plus interest and costs.

Bell Globemedia lawsuit

On February 5, 2001, Bell Globemedia Publishing Inc., a subsidiary of Bell Globemedia, was added as a defendant to a class action lawsuit relating to copyright infringement. The claim is that The Globe and Mail newspaper and magazines do not have the right to archive and publish certain freelanced and employee material from the newspaper or magazines in any format other than print.

The claim includes damages of $100 million and injunctive relief. In 2001, the Ontario Superior Court of Justice rejected the plaintiff's motion for partial summary judgment (including the rejection of a requested injunction at that stage) on certain proposed common issues. The court declared that The Globe and Mail was legally entitled to publish the newspaper on microfilm, microfiche and in the Internet edition. It reserved for trial the question of whether The Globe and Mail had, over the years, acquired implied rights from freelancers to archive and make available their written contents of the newspaper on electronic databases and CD-ROMs.

The plaintiff appealed this decision, and the defendants cross-appealed on some issues. The Ontario Court of Appeal provided its majority decision on October 6, 2004, and affirmed the initial refusal of summary judgment by the original motions judge. The dissent was not on the issue of whether summary judgment in favour of the plaintiff should be refused (all 3 judges were in agreement on that), but rather the dissenting judge felt that the action by the plaintiff should be dismissed at this point.

Each of the plaintiff and the defendants' have filed an application with the Supreme Court of Canada, seeking leave to appeal to that court from the ruling of the Ontario Court of Appeal. The Supreme Court of Canada granted both the plaintiff's and defendants' leave to appeal applications, and the appeal was heard on December 6, 2005, with judgment being reserved. Both the Canadian Newspaper Association and the Canadian Community Newspaper Association had previously been given leave to intervene on the defendants' behalf, and did so, as the only intervenors.

In addition, the plaintiff has commenced a subsequent class action that includes a claim for $750 million in damages plus costs and interest. Although neither Bell Globemedia nor Bell Globemedia Publishing Inc. have been named as defendants in the second action, the plaintiff has indicated an intention to attempt to certify both a plaintiff class and a defendant class, which defendant class, if ultimately certified, may include certain divisions of Bell Globemedia or Bell Globemedia Publishing Inc. However, no classes have yet been certified in this second action.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

This section describes assumptions made by BCE in preparing forward-looking statements and general risks that could affect all BCE group companies and specific risks that could affect BCE Inc. and certain other BCE group companies.

A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition, results of operations or business of one or more BCE group companies. Part of managing our business is to understand what these potential risks could be and to minimize them where we can.

Because no one can accurately predict whether an event that is only possible will actually happen or what its consequences may be, the actual effect of any event on our business and results could be materially different from what we currently anticipate. In addition, this description of risks does not include all possible risks, and there may be other risks that we are currently not aware of.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS

Forward-looking statements for 2006 made in this AIF are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. This section outlines assumptions that we made in addition to those set out in other sections of this AIF. If our assumptions turn out to be inaccurate, our actual results could be materially different from what we expect.

Assumptions about the Canadian economy

- Canadian GDP growth of approximately 3% in 2006, which is consistent with estimates by the Conference Board of Canada
- the business prime rate in Canada to increase slightly from its 2005 year-end level
- the Consumer Price Index (estimated by Statistics Canada) to increase slightly from its 2005 year-end level.

Market assumptions

• growth in the overall Canadian telecommunications market slightly higher than GDP in 2006

• continued decrease in the residential voice telecommunications market in 2006 because more consumers are expected to use wireless, e-mail and instant messaging instead

• increase in the wireline competition in both the business and residential telecommunications markets in 2006, mainly from cable companies

• growth in revenues for the Canadian wireless industry in 2006 similar to the rate of growth in 2005

• growth in revenues for the Canadian video market in 2006 slightly lower than the rate of growth in 2005

• growth in revenues for the Canadian Internet market in 2006 also slightly lower than the rate of growth in 2005.

Operational and financial assumptions

Subscribers and services

• growth in the number of our wireless, video and high-speed Internet subscribers as well as higher average revenue per user for these services are targeted in 2006

• continued decrease in our network access services is expected in 2006, with significantly higher declines in our Residential segment.

Financial

• significant cost savings are targeted in 2006 as a result of our Galileo program, including from internal process redesign and supply transformation

• restructuring costs are expected to result in 2006 mainly from reductions in our workforce

• amortization expense is expected to increase in 2006 as a result of an increase in our capital base, reflecting mainly the capitalization of STB and installation costs associated with the new rental program in our video business unit, the completion in 2005 of the Alberta SuperNet and Telesat's new Anik F1R and Anik F3 satellites

• total net benefit plans cost is expected to increase in 2006 mainly as a result of a further reduction in the discount rate from 6.2% in 2005 to 5.2% in 2006

• Bell Canada's capital intensity is targeted to decrease in 2006 mainly as a result of anticipated lower spending for maintenance of our wire-line and DSL networks which is expected to be partly offset by increased investment in our key strategic priorities.

Assumptions about Transactions

• BCE Inc. plans to repurchase 5% of its common shares under its previously announced normal course issuer bid

• we expect to complete the disposition of our remaining interest in CGI

• we expect to reduce our equity interest in Bell Globemedia from 68.5% to 20% as announced on December 2, 2005. The expected closing of the Bell Globemedia transaction is subject to a number of approvals and closing conditions, including approval by the CRTC and the Competition Bureau, and other closing conditions that are customary in this type of transaction.

• we expect to complete the creation of a regional telecommunications service provider in the form of an income trust.

RISKS THAT COULD AFFECT ALL BCE GROUP COMPANIES

Bell Canada is our most important subsidiary, which means our financial performance depends in large part on how well Bell Canada performs financially. The risks that could affect Bell Canada and its subsidiaries are more likely to have a significant impact on our financial condition, results of operations and business than the risks that could affect other BCE group companies.

Strategies and plans

We plan to achieve our business objectives through various strategies and plans.

In 2006, we plan to continue to implement our strategy to deliver unrivalled integrated communication services to customers across Canada in the most efficient and cost-effective manner. This strategy is founded on the three key pillars referred to earlier in this AIF under *Our strategic priorities* and is supported by our four operating priorities for 2006 concerning service, customer retention, growth services and costs, also referred to under *Our strategic priorities*.

Our strategic direction requires us to transform our cost structure and the way in which we serve customers. This means we will need to:

• be responsive in adapting to these changes and make any necessary shifts in employee skills. If our management, processes or employees are not able to adapt to these changes, our business and financial results could be materially and negatively affected

• invest capital to implement our strategies and operating priorities. The actual amount of capital required and the returns from these investments could, however, differ materially from our current expectations. In addition, we may not have access to capital on attractive terms when we need it.

Not achieving our business objectives could have a material and negative impact on our financial performance and growth prospects.

Economic and market conditions

Our business is affected by general economic conditions, consumer confidence and spending, and the demand for, and prices of, our products and services. When there is a decline in economic growth and in retail and commercial activity, there tends to be a lower demand for

our products and services. During these periods, customers may delay buying our products and services, or reduce purchases or discontinue using them.

Weak economic conditions could lower our profitability and reduce cash flows from operations. They could also negatively affect the financial condition and creditworthiness of our customers, which could increase uncertainty about our ability to collect receivables and potentially increase our bad debt expenses.

Increasing competition

We face intense competition from traditional competitors, as well as from new players entering our markets. We compete with telecommunications, media, television and satellite service providers. We also compete with other businesses and industries including cable, software and Internet companies, a variety of companies that offer network services, such as providers of business information systems, systems integrators and other companies that deal with, or have access to, customers through various communications networks.

Competition affects our pricing strategies and could reduce our revenues and lower our profitability. It could also affect our ability to retain existing customers and attract new ones. We are under constant pressure to keep our prices and service offerings competitive. We need to be able to anticipate and respond quickly to the constant changes in our businesses and markets.

We already have several domestic and foreign competitors, but the number of well resourced foreign competitors with a presence in Canada could increase in the future. In recent years, the Government of Canada has reviewed the foreign ownership restrictions that apply to telecommunications carriers and to BDUs. Removing or easing the limits on foreign ownership could result in foreign companies entering the Canadian market by making acquisitions or investments. This could result in greater access to capital for our competitors or the arrival of new competitors with global scale, which would increase competitive pressure. We cannot predict what action, if any, the federal government will take as a result of these reviews. We also cannot assess how any change in foreign ownership restrictions may affect us because the government continues to consider its position on these matters.

Wireline and long distance

We experience significant competition in the provision of long distance service from dial-around providers, prepaid card providers, VoIP service providers and others, and from traditional competitors such as interexchange carriers and resellers. We also face increasing cross-platform competition as customers replace traditional services with new technologies. For example, our wireline business competes with VoIP, wireless and Internet services, including chat services, instant messaging and email.

We are also facing increasing competitive pressure from cable companies as a result of their now offering voice services over their networks. Since cable companies only recently started offering voice services, it is difficult to predict the extent and timing of any resulting loss in market share that we might suffer. It is also difficult to predict to what degree customers who stop using our voice services will also stop using our other services such as video and Internet access. Additional competitive pressure is also emerging from other competitors such as electrical utilities. These alternative technologies, products and services are now making significant inroads in our legacy services, which typically represent our higher margin business.

Technology substitution, and VoIP in particular, have reduced barriers to entry in the industry. This has allowed competitors with far lower investments in financial, marketing, personnel and technological resources to rapidly launch new products and services and gain market share. We expect this trend to accelerate in the future, which could materially and negatively affect our financial performance.

Competition for contracts to supply long distance services to large business customers is very intense. Customers may choose to switch to competitors that offer lower prices to gain market share and are less concerned about the quality of service or impact on their margins.

These competitive factors suggest that our legacy wireline accesses and long distance volumes will continue to decline in the future. Continued decline will lead to reduced economies of scale in those businesses and, in turn, lower margins. Our strategy is to mitigate these declines by building the business for newer growth services. The margins on newer services, however, will likely be less than the margins on legacy services. If the legacy services decline faster than the rate of growth of our newer services, our financial performance could be negatively and materially affected. In addition, if a large portion of the customers who stop using our voice services also cease using our other services, our financial performance could be negatively and materially affected.

Internet access

We compete with cable companies and ISPs to provide broadband and Internet access and related services. In particular, cable companies have focused on increased bandwidth and discounted pricing on bundles to compete against us.

Regional electrical utilities may continue to develop and market services that compete directly with Bell Canada's Internet access and broadband services. Developments in wireless broadband services may also lead to increased competition in certain geographic areas. This could materially and negatively affect the financial performance of our Internet access services business.

Wireless

The Canadian wireless telecommunications industry is also highly competitive. We compete directly with other wireless service providers that aggressively introduce, price and market their products and services. We also compete with wireline service providers. We expect competition to intensify as new technologies, products and services are developed.

Video

Bell ExpressVu and Bell Canada compete directly with another DTH satellite television provider and with cable companies across Canada. These cable companies have upgraded their networks, operational systems and services, which could improve their competitiveness. This could materially and negatively affect the financial performance of Bell ExpressVu and Bell Canada.

Transforming our cost structure and containing capital intensity

Our strategies and operating priorities require us to transform our cost structure. Accordingly, we are intensifying the implementation of several productivity improvements and initiatives to reduce costs while containing our capital expenditures. Our objectives for cost reduction under our new cost structure are aggressive compared to what we achieved in the past, and there is no assurance that these initiatives will be successful in reducing costs. There will be a material and negative effect on our profitability if we do not successfully implement these cost reduction initiatives and productivity improvements and manage capital expenditures while maintaining the quality of our service.

Each year between 2002 and 2005, Bell Canada companies had to reduce the price of certain services that are subject to regulatory price caps and may be required to do so again in the future. They have also reduced their prices for some business data services that are not regulated in order to remain competitive, and may have to continue doing so in the future. Their profits will decline if they cannot reduce their expenses at the same rate. There would be a material and negative effect on our profitability if market factors, such as increasing competition or regulatory actions, result in lower revenues and we cannot reduce our expenses at the same rate.

Many productivity improvements and cost reduction initiatives require capital expenditures to implement systems that automate or enhance our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions.

Improved customer service is critical to increasing customer retention and average revenue per user. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either of these objectives, it could have a material and negative effect on our results of operations.

Anticipating technological change and investing in new technologies, products and services

We operate in markets that are affected by constant technological change, evolving industry standards, changing client needs, frequent introductions of new products and services, and short product life cycles. The investment in new technologies, products and services and the ability to launch, on a timely basis, such technologies, products and services are critical to increasing the number of our subscribers and achieving our targeted financial performance.

Our success will depend in large part on how well we can anticipate and respond to changes in industry standards and client needs, and how quickly and efficiently we can introduce new products, services and technologies, and upgrade existing ones.

We may face additional financial risks as we develop new products, services and technologies, and update our networks to stay competitive. Newer technologies, for example, may quickly become obsolete or may need more capital than expected. Development could be delayed for reasons beyond our control. Substantial investments usually need to be made before new technologies prove to be commercially viable. There is also a significant risk that current regulation could be expanded to apply to newer technologies. A regulatory change could delay our launch of new services and restrict our ability to market these services if, for example, new pricing rules or marketing or bundling restrictions are introduced, or existing ones are extended.

The Bell Canada companies are in the process of moving traffic on their core circuit-based infrastructure to IP technology.

As part of this move, the Bell Canada companies are in the process of discontinuing certain services that are based on circuit-based infrastructure. This is a necessary component of improving capital and operating efficiencies. In some cases, this could be delayed or prevented by customers or regulatory actions. If the Bell Canada companies cannot discontinue these services as planned, they will not be able to achieve the efficiencies as expected.

There is no assurance that we will be successful in developing, implementing and marketing new technologies, products, services or enhancements in a reasonable time, or that they will have a market. There is also no assurance that efficiencies will increase as expected. New products or services that use new or evolving technologies could make our existing ones unmarketable or cause prices to fall.

Liquidity

Our ability to meet our financial obligations and provide for planned growth depends on our sources of liquidity.

Our cash requirements may be affected by the risks associated with our contingencies, off-balance sheet arrangements, derivative instruments and assumptions built into our business plan.

In general, we finance our capital needs in four ways:

- from cash generated by our operations or investments
- by borrowing from commercial banks
- through debt and equity offerings in the capital markets
- by selling or otherwise disposing of assets.

Financing through equity offerings would dilute the holdings of existing equity investors. An increased level of debt financing could lower our credit ratings, increase our borrowing costs and give us less flexibility to take advantage of business opportunities.

Our ability to raise financing depends on our ability to access the capital markets and the syndicated commercial loan market. The cost of funding depends largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. If our credit ratings are downgraded, our cost of funding could significantly increase. In addition, participants in the capital and syndicated commercial loan markets have internal policies limiting their ability to invest in, or extend credit to, any single borrower or group of borrowers or to a particular industry.

BCE Inc. and some of its subsidiaries have entered into renewable credit facilities with various financial institutions. They include credit facilities supporting commercial paper programs. There is no assurance that these facilities will be renewed on favourable terms.

We need significant amounts of cash to implement our business plan. This includes cash for capital expenditures to provide our services, dividend payments and payment of our contractual obligations, including repayment of our outstanding debt.

Our plan in 2006 is to generate enough cash from our operating activities to pay for capital expenditures and dividends. We expect to pay contractual obligations maturing in 2006 from cash on hand, from cash generated from our operations or by issuing debt. If actual results are different from our business plan or if the assumptions in our business plan change, we may have to raise more funds than expected by issuing debt or equity, borrowing from banks or selling or otherwise disposing of assets.

If we cannot raise the capital we need upon acceptable terms, we may have to:

- limit our ongoing capital expenditures
- limit our investment in new businesses
- try to raise additional capital by selling or otherwise disposing of assets.

Any of these could have a material and negative effect on our cash flow from operations and on our growth prospects.

Acquisitions and dispositions

Our growth strategy includes making strategic acquisitions and entering into joint ventures. We also from time to time dispose of assets or all or part of certain businesses. There is no assurance that we will find suitable companies to acquire or to partner with, or that we will have the financial resources needed to complete any acquisition or to enter into any joint venture. There could also be difficulties in integrating the operations of acquired companies with our existing operations or in operating joint ventures.

There is also no assurance that we will be able to complete any announced dispositions or that we will use the funds received as a result of such dispositions for any specific purpose that may be publicly anticipated.

Acquisitions and dispositions may be subject to various conditions, such as approvals by regulators and holders of our securities and other closing conditions, and there can be no assurance that, with respect to any specific acquisition or disposition, all such conditions will be satisfied.

Litigation, regulatory matters and changes in laws

Pending or future litigation, regulatory initiatives or regulatory proceedings (including the increase of class action claims) could have a material and negative effect on our businesses, operating results and financial condition.

Changes in laws or regulations or in how they are interpreted, and the adoption of new laws or regulations, could also materially and negatively affect us. This includes changes in tax laws or the adoption of new tax laws that result in higher tax rates or new taxes. It also includes the amendments to the *Securities Act of Ontario* that took effect December 31, 2005. These amendments introduced statutory civil liability for misrepresentations in continuous disclosure and failure to disclose material changes on a timely basis, and could result in an increase in the number of securities class action claims. BCE could have to devote considerable management time and resources to responding to such securities class action claims.

For a description of the principal legal proceedings involving us, please see *Legal proceedings we are involved in* .

For a description of certain regulatory initiatives and proceedings affecting the Bell Canada companies, please see *The regulatory environment we operate in*.

Funding and control of subsidiaries

BCE Inc. and Bell Canada are currently funding, directly or indirectly, and may, in the future, continue to fund, the operating losses of some of their subsidiaries, but they are under no obligation to continue doing so. If BCE Inc. or Bell Canada decides to stop funding any of its subsidiaries and that subsidiary does not have other sources of funding, this would have a material and negative effect on the subsidiary's results of operations and financial condition and on the value of its securities. It could also have, depending on factors such as the size or strategic importance of the subsidiary, a material and negative effect on the results of operations and financial condition of BCE Inc. or Bell Canada.

In addition, BCE Inc. and Bell Canada do not have to remain the majority holder of, or maintain their current level or nature of ownership in, any subsidiary, unless they have agreed otherwise. An announcement of a decision by BCE Inc. or Bell Canada to change the nature of its investment in a subsidiary, to dispose of some or all of its interest in a subsidiary, or any other similar decision could have a material and negative effect on the subsidiary's results of operations and financial condition and on the value of its securities.

If BCE Inc. or Bell Canada stops funding a subsidiary, changes the nature of its investment or disposes of all or part of its interest in a subsidiary, stakeholders or creditors of the subsidiary might decide to take legal action against BCE Inc. or Bell Canada. For example, certain members of the lending syndicate of Teleglobe, a former subsidiary of BCE Inc., and other creditors of Teleglobe have launched lawsuits against BCE Inc. following its decision to stop funding Teleglobe. You will find a description of these lawsuits under *Legal proceedings we are involved in* . While we believe that these kinds of claims have no legal foundation, they could negatively affect the market price of BCE Inc.'s or Bell Canada's securities. BCE Inc. and Bell Canada could also have to devote considerable management time and resources to respond to such a claim.

Pension fund contributions

We have not had to make regular contributions to our pension funds in recent years because most of our pension plans have had pension fund surpluses. However, historically low interest rates combined with new actuarial standards that came into effect in February 2005, have eroded the pension fund surpluses. This has negatively affected our net earnings and liquidity. We expect to contribute approximately $470 million to our defined benefit pension plans in 2006, subject to actuarial valuations being completed.

The funding status of our pension plans resulting from future valuations of our pension plan assets and liabilities depends on a number of factors, including:

• actual returns on pension plan assets

• long-term interest rates.

These factors could require us to increase contributions to our defined benefit pension plans in the future and therefore could have a material and negative effect on our liquidity and results of operations in 2006.

Renegotiating labour agreements

Approximately 47% of our employees are represented by unions and are covered by collective agreements. Renegotiating collective agreements could result in higher labour costs and work disruptions, including work stoppages or work slowdowns. Difficulties in renegotiations or other labour unrest could significantly hurt our business, operating results and financial condition.

There can be no assurance that if a strike occurs, it would not disrupt service to Bell Canada's customers. In addition, work disruptions at our service providers, including work slowdowns and work stoppages due to strikes, could significantly hurt our business, including our customer relationships and results of operations.

Events affecting our networks

Network failures could materially hurt our business, including our customer relationships and our operating results. Our operations depend on how well we protect our networks, equipment, applications and the information stored in our data centres against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, acts of war or terrorism and other events. Our operations also depend on timely replacement and maintenance of our networks and equipment. Any of these events could cause our operations to be shut down indefinitely.

Our networks are connected with the networks of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned in the previous paragraph, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could also hurt our business, including our customer relationships and our operating results.

Software and system upgrades

Many aspects of our business, such as providing telecommunication services and customer billing, among others, depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time. Implementing system and software upgrades and conversions is a very complex process, which may have several adverse consequences including billing errors and delays in customer service. Any of these events could significantly damage our customer relationships and business and have a material and negative effect on our results of operations.

Regional Telecommunications Service Provider

We have proposed forming a new regional telecommunications service provider in the form of an income trust which would combine Bell Canada's regional wireline operations with Aliant's wireline operations. The new income trust would also own Bell Canada's 63.4% interest in NorthernTel and Télébec. Completion of this transaction is subject to a number of conditions that include, among others:

• receiving advance income tax rulings from the Canada Revenue Agency

• receiving approval from the CRTC

• receiving an advance ruling certificate from the Competition Bureau

• receiving approvals from the appropriate securities commissions, regulators and stock exchanges

• receiving required third party consents on satisfactory terms

• receiving required approvals from Aliant's shareholders

• receiving necessary court approvals

• arranging satisfactory bank financing.

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The proposed transaction involves the integration of various operations previously operated independently and there can be no assurance that the resulting combined operation will realize the anticipated synergies or that other benefits expected from the transaction will be realized.

Although our goal is to complete the proposed transaction without affecting our customers or future customers of the trust, there can be no assurance that the proposed transaction will not result in customer service disruptions. Customer service disruptions may have a negative effect on our operations and financial results, and those of the trust in particular.

Although we expect the trust to make regular cash distributions to unitholders, these are not assured and may be reduced or suspended. The ability of the trust to maintain cash distributions will be subject to certain risks associated with its business and operations, including risks relating to:

• general economic conditions

• increasing competition

• changes in technology, industry standards and client needs

• the trust's ability to quickly and efficiently introduce new products, services and technologies and upgrade existing ones in response to these changes

• the impact of pending or future litigation or regulatory proceedings or changes in laws.

If the trust does not meet its targets for cash distributions, the value of its units could decline substantially.

Following the closing of the proposed transaction, BCE expects to reduce its indirect interest in the trust through a distribution of trust units to holders of BCE Inc. common shares. The distribution of trust units by BCE is subject to various conditions including approval by BCE Inc.'s shareholders and necessary court approvals.

Telesat

We expect the proposed recapitalization and public offering of a minority stake in Telesat to take several months to complete. During this time, the rapid pace of change in the industry and the potential for regulatory developments and/or changes in laws may make the proposed recapitalization and public offering less favourable, or other transactions and opportunities may emerge that for business reasons BCE Inc. considers to be more attractive. Business reasons could include the availability of financing on acceptable terms and the condition of relevant capital markets, among others. There is no assurance that the proposed recapitalization and public offering for Telesat will be completed in its current form or at all.

RISKS THAT COULD AFFECT BCE INC.

Holding company structure

BCE Inc. is a holding company. That means it does not carry on any significant operations and has no major sources of income or assets of its own, other than the interests it has in its subsidiaries, joint ventures and significantly influenced companies. BCE Inc.'s cash flow and its ability to service its debt and to pay dividends on its shares depend on dividends or other distributions it receives from its subsidiaries, joint ventures and significantly influenced companies and, in particular, from Bell Canada. BCE Inc.'s subsidiaries, joint ventures and significantly influenced companies are separate legal entities and they have no legal obligation to pay dividends or make other distributions to BCE Inc.

Stock market volatility

The stock markets have experienced significant volatility over the past few years, which has affected the market price and trading volumes of the shares of many telecommunications companies in particular. Differences between BCE Inc.'s actual or anticipated financial results and the published expectations of financial analysts may also contribute to volatility in BCE Inc.'s common shares. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of BCE Inc.'s common shares or other securities, may materially and negatively affect our ability to raise capital, issue debt, retain employees, make strategic acquisitions or enter into joint ventures.

RISKS THAT COULD AFFECT CERTAIN BCE GROUP COMPANIES

BELL CANADA COMPANIES

Changes to wireline regulation

Decisions of regulatory agencies

The business of the Bell Canada companies is affected by decisions made by various regulatory agencies, including the CRTC. For example, many of the decisions of the CRTC indicate that they try to balance requests from competitors for access to facilities, such as the telecommunications networks, switching and transmission facilities, and other network infrastructure of incumbent telephone companies, with the rights of the incumbent telephone companies to compete reasonably freely. There is a risk that decisions of the CRTC, and in particular the decisions relating to prices at which we must provide such access, may have a negative effect on our business and results of operations. Decisions of, and proceedings involving, regulatory agencies including the CRTC are described in more detail in *The regulatory environment we operate in*.

Second Price Cap decision

In May 2002, the CRTC issued decisions relating to new price cap rules that govern incumbent telephone companies for the four-year period starting in June 2002.

The CRTC also established the deferral account, an obligation that changes as amounts are added to the account, or the CRTC approves initiatives that serve to reduce the account.

The accumulated deferral account balance in Bell Canada's and Aliant's deferral accounts at May 31, 2006 is estimated to be $480.5 million for Bell Canada and $21.8 million for Aliant, while the future annualized recurring deferral account obligation as of the same date is estimated at $81.5 million for Bell Canada and $2.2 million for Aliant.

On February 16, 2006, the CRTC issued Telecom Decision 2006-9, where it concluded that incumbent telephone companies should clear the accumulated balances in their deferral accounts, to the greatest extent possible, in the following ways:

• by expanding broadband services to rural and remote areas that are currently unserved and would not otherwise be served

• by improving the accessibility to telecommunications services for persons with disabilities, using a minimum of 5% of incumbent telephone companies deferral account balances.

Incumbent telephone companies are directed to file their proposals by June 30, 2006. Any amounts remaining in their deferral accounts after accounting for these two programs will be rebated to residential local customers in non-high cost serving areas.

There is a risk that Bell Canada's and Aliant's proposed implementation timeframes may be accelerated, which could have a material and negative effect on their results of operations.

Competitor Digital Network Service

On February 3, 2005, the CRTC released Telecom Decision 2005-6 on CDN services. This decision set the rates, terms and conditions for the provision of digital network services by Bell Canada and the other incumbent telephone companies to their competitors. The CRTC determined that CDN services should include not only digital network access components but also intra-exchange facilities, inter-exchange facilities in certain metropolitan areas, and channelization and co-location links (expanded CDN services). This decision affected Bell Canada and Aliant as providers of CDN services in their own operating territories and as purchasers of those services elsewhere in Canada.

There are two important financial aspects to note in this decision:

• the prices for all CDN services were applied on a going-forward basis, as of the date of the decision, and Bell Canada will be compensated from the deferral account for the revenue losses from this decision

• Bell Canada will also be compensated through the deferral account for applying reduced rates retroactively for the CDN access components that were tariffed at interim rates prior to the decision.

Retail quality of service indicators

On March 24, 2005, the CRTC released Telecom Decision 2005-17 which, among other things, established the rate adjustment plan to be applied when incumbent telephone companies do not meet mandated standards of quality of service provided to their retail customers. As a result of this decision, incumbent telephone companies are subject to a penalty mechanism when they do not meet one or more service standards for their retail services. For Bell Canada, this maximum potential penalty amount equates to approximately $245 million annually, based on 2004 revenues.

In the current penalty period of January 1 to December 31, 2005, the CRTC standard for several indicators was not met on an annual average basis because of the strike in 2005 by the CEP at Entourage. Bell Canada has requested that the CRTC approve its December 5, 2005 application for the purpose of excluding below-standard strike-related results as a *force majeure* type exclusion. However, there is no assurance that the CRTC will issue a favourable decision and Bell Canada may be required to pay a penalty of up to $19 million.

The CRTC determined that Aliant did not meet certain service standards during the period of January 1 to December 31, 2004. Applying the rate adjustment plan would result in an estimated penalty of $3 million. Aliant has applied to the CRTC for an exclusion from having to pay a penalty due to its labour disruption in 2004, as allowed for in the decision. The CRTC has not yet ruled on this application. Regarding the penalty period of January 1 to December 31, 2005, the CRTC standard for two indicators was missed on an annual average basis, resulting in a possible penalty of approximately $2 million.

Decision of VoIP Regulation

On May 12, 2005, the CRTC released Telecom Decision 2005-28 which determined the way the CRTC will regulate VoIP services. The CRTC determined that VoIP services (other than peer-to-peer services, defined in the decision as IP communications services between two computers) provided by Bell Canada and other incumbent telephone companies will be regulated in the same way as traditional telephone services.

As a result of this decision, VoIP services that use telephone numbers that conform to the North American numbering plan, and that provide universal access to and/or from the public switched telephone network will, for incumbent telephone companies, be treated as regulated local exchange services. Accordingly, tariffs have to be filed by incumbent telephone companies, but not by their competitors, when they provide customers with local VoIP services using a telephone number associated with that incumbent telephone company's territory. In addition, the winback rules will apply, which means that incumbent telephone companies cannot attempt to directly contact a former residential local service customer for a period of 12 months from the time the customer decides to buy traditional local telephone service or VoIP service from a competitor. Other restrictions on promotions and bundling that apply to traditional local wireline services also

apply to VoIP. These regulatory requirements could reduce Bell Canada's and Aliant's flexibility to compete with both traditional and new competitors, which could have a material and negative effect on our business and results of operations.

Also as a result of Telecom Decision 2005-28, incumbent telephone companies as well as competitive local exchange carriers will have to fulfill, in relation to VoIP services, other requirements that apply to traditional telephone services, such as:

- allowing customers to keep their local number when they change service providers within the same local area (local number portability)
- allowing customers to use any long distance provider of their choice
- listing telephone numbers in the directory associated with the local telephone number chosen by the customer
- offering services for the hearing impaired
- implementing safeguards to protect customer privacy.

These regulatory requirements could increase operational costs and reduce Bell Canada's and Aliant's flexibility to compete with resellers, and could therefore have a negative effect on our business and results of operations. Bell Canada and several other parties have petitioned the Governor in Council to overturn the CRTC's decision.

In 2005, Bell Canada introduced three retail VoIP services in Québec and Ontario. These services are offered pursuant to tariffs that have received interim approval from the CRTC. CRTC public processes relating to these filings were held in 2005 and decisions on final approval of the tariffs are expected in March 2006. The CRTC has, on an interim basis, permitted Bell Canada to file VoIP tariff notices for the CRTC's approval, on a confidential basis, which provide for minimum and maximum rates associated with each proposed VoIP service plan. Once the minimum and maximum rates are approved, for all future price changes within that range, Bell Canada can issue new tariff pages on their effective date. No additional CRTC approvals are required for price changes within the ranges. The CRTC has also, on an interim basis, permitted Bell Canada to price its Bell Digital Voice service differently on a province-wide basis in Ontario and Québec. A final decision from the CRTC regarding these tariff notices could result in a different outcome, and could therefore have a negative effect on our business and results of operations.

Forbearance from regulation of local exchange services

The CRTC conducted a public proceeding in 2005 on a framework for forbearance from the regulation of residential and business local exchange services offered by the incumbent telephone companies. The CRTC plans to issue a decision with respect to this matter in March 2006. Bell Canada's and the other incumbent telephone companies' flexibility to compete could be adversely affected in the event that the CRTC, in its decision, establishes onerous conditions to be satisfied in order for the incumbent telephone companies to obtain regulatory forbearance of residential and business local exchange services.

Price floor safeguards for retail services

On April 29, 2005, the CRTC issued its decision on price floor safeguards and related issues. A price floor safeguard is the minimum price that an incumbent telephone company can charge for regulated services.

In its decision, the CRTC made changes which, in some circumstances, may result in future higher price floors for new services and bundles that could negatively limit Bell Canada's ability to compete.

Application to change bundling rules

On September 2, 2005, Bell Canada applied to the CRTC to modify the bundling rules that apply to CSAs. CSAs are arrangements tailored to a particular customer's needs for the purpose of customizing the offering in terms of rate structure and levels.

The CRTC currently requires any Mixed CSAs to be filed for approval with the CRTC before it can be provided to customers.

Bell Canada's proposal would exempt a Mixed CSA from the bundling rules and associated tariff requirements if:

- total revenue from the CSA is higher than the price of the tariffed components of the CSA
- the CSA is not part of a practice designed to circumvent tariffs.

Bell Canada's flexibility to compete may continue to be encumbered if the proposal is not approved.

Bell Canada proposals to Telecom Policy Review Panel

On April 11, 2005, the Minister of Industry announced the creation of the Telecom Policy Review Panel (Panel) to review Canada's telecommunications policy and regulatory framework, and make recommendations. The Government of Canada had asked the Panel to deliver a final report by the end of 2005 but the report has been delayed and it is not clear when it will be released to the public.

On August 15, 2005, Bell Canada submitted its recommendations to the Panel including a proposal for the adoption of a comprehensive "next generation" regulatory framework that relies on market forces to the maximum extent possible to ensure the telecommunications industry's continued role as a key enabler of Canada's overall economic performance.

There can be no guarantee that the Panel will adopt any or all of Bell Canada's proposals, or that the Minister of Industry and Parliament would implement the Panel's recommendations regardless of its adoption of Bell Canada's proposals.

A number of groups have intervened to the Panel, opposing the regulatory reforms suggested by Bell Canada and advocating different reforms including significantly expanding the scope of wholesale regulation of Bell Canada's and other incumbent telephone companies' facilities. There is a risk that the Panel could follow those recommendations and propose that they be adopted by the Minister of Industry and Parliament. Implementation of the recommendations and proposals of opposing parties could have a material and negative effect on the Bell Canada companies.

Access to Bell Canada loops for Competitor Local Exchange Carriers' customers served via remotes

On September 2, 2005, Rogers Telecom submitted an application requesting that the CRTC direct Bell Canada to make unbundled loops, which are transmission paths between the users' premises and the central office that are provided separately from other components, available to competitors in a timely manner in certain specified areas where Rogers Telecom is present. On October 3, 2005, Bell Canada responded to Rogers Telecom's application and explained the reasons why in some areas where competitors are present and the competitors' potential end customer is served via a Bell Canada remote, unbundled loops should not have to be provided unless Bell Canada is compensated by competitors for the costs it incurs on their behalf.

The cost to equip Bell Canada's network in order to provide unbundled loops to competitors in locations where a potential competitor's end customer is currently served via a Bell Canada remote could be significant should the CRTC grant Rogers Telecom's request. It is anticipated that the CRTC will institute a further process to examine this matter prior to rendering a decision.

Wireless number portability

The Government of Canada in its 2005 Budget announced that it intended to ask the CRTC to implement wireless number portability. Number portability enables customers to retain the same phone number when changing service provider within the same local serving area.

On December 20, 2005, the CRTC released Telecom Decision 2005-72. Among other things, the decision directed Bell Mobility, Rogers Wireless and Telus Mobility to implement wireless number portability in Alberta, British Columbia, Ontario and Quebec by March 14, 2007. This accelerated timeframe will be challenging for Bell Mobility and the rest of the wireless industry to meet. On February 6, 2006, the CRTC issued Telecom Public Notice 2006-3, *Regulatory issues related to the implementation of wireless number portability* , a proceeding that will address a wide range of issues associated with the implementation.

Licences and changes to wireless regulation

Companies must have a spectrum licence to operate cellular, PCS and other radio-telecommunications systems in Canada. The Minister of Industry awards spectrum licences, through a variety of methods, at his or her discretion under the *Radiocommunication Act*.

While we expect that the licences under which Bell Mobility, Aliant Telecom and MT&T Mobility provide cellular and PCS services will be renewed at term, there is no assurance that this will happen. Industry Canada can revoke a company's licence at any time if the company does not comply with the licence's conditions. While we believe that we comply with the conditions of our licences, there is no assurance that Industry Canada will agree. Should there be a disagreement, this could have a material and negative effect on the Bell Canada companies.

In February 2005, Industry Canada released a report concerning its procedures for approving and placing wireless and radio towers in Canada, including the role of municipal authorities in the approval process. Among other things, the report recommends that the authority to regulate the siting of antennae and supporting structures remain exclusively with the Government of Canada. In August 2005, Industry Canada presented a revised draft policy for comment. The wireless and broadcasting industries both have a number of concerns with the draft policy and are now working with Industry Canada to attempt to resolve these concerns. It is not possible to predict at this time if or when the final policy will be issued. If the final policy requires more municipal or public consultation in the approval process, there is a risk that it could significantly slow the expansion of wireless networks in Canada. This could have a material and negative effect on the operations of the Bell Canada companies.

Revenue from major customers

A significant amount of revenue earned by Bell Canada's Enterprise unit comes from a small number of major customers. If we lose contracts with any of these major customers and cannot replace them, it could have a material and negative effect on our financial results.

Competition Bureau's investigation concerning system access fees

On December 9, 2004, Bell Canada was notified by the Competition Bureau that the Commissioner of Competition had initiated an inquiry under the misleading advertising provisions of the *Competition Act* concerning Bell Mobility's description or representation of system access fees (SAFs) and was served with a court order, under section 11 of the *Competition Act*, compelling Bell Mobility to produce certain records and other information that would be relevant to the Competition Bureau's investigation. Bell Canada has complied with the court order and provided the requested information.

Bell Mobility charges monthly SAFs to its cellular subscribers to help it recover certain costs associated with its mobile communications network. These costs include maintenance costs, the cost of installing new equipment and retrofitting new technologies, and fees for spectrum licences. These costs also include the recovery of the contribution tax the CRTC charges to support telephone services in rural and remote areas of Canada.

Bell Mobility may be subject to financial penalties by way of fines, administrative monetary penalties and/or demands for restitution of a portion of the SAFs charged to cellular subscribers if it is found to have contravened the misleading advertising provisions of the *Competition Act*.

Potential legislation restricting in-vehicle use of cellphones

Some studies suggest that using cellphones while driving may result in more motor vehicle collisions. It is possible that this could lead to new regulations or legislation banning the use of handheld cellphones while driving, as it has in Newfoundland and Labrador and in several U.S. states, or other restrictions on in-vehicle use of wireless devices. If any of these happen, cellphone use in vehicles may decline, which may negatively affect the business of the Bell Canada companies.

Health concerns about radio frequency emissions

It has been suggested that some radio frequency emissions from cellphones may be linked to certain medical conditions. Interest groups have also requested investigations into claims that digital transmissions from handsets used with digital wireless technologies pose health concerns and cause interference with hearing aids and other medical devices. This could lead to additional government regulation, which could have a material and negative effect on the business of the Bell Canada companies. In addition, actual or perceived health risks of wireless communications devices could result in fewer new network subscribers, lower network usage per subscriber, higher churn rates, product liability lawsuits or less outside financing being available to the wireless communications industry. Any of these would have a negative effect on the business of the Bell Canada companies.

Bell ExpressVu

Bell ExpressVu currently uses four satellites, Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-Interim, for its video services. Nimiq 4-Interim became operational at the end of February 2006. Telesat, a wholly-owned subsidiary of BCE Inc., operates or directs the operation of these satellites.

Satellites are subject to significant risks. Any loss, failure, manufacturing defects, damage or destruction of these satellites, of Bell ExpressVu's terrestrial broadcasting infrastructure, or of Telesat's tracking, telemetry and control facilities to operate the satellites, could have a material and negative effect on Bell ExpressVu's results of operations and financial condition. Please see *Risks that could affect certain BCE group companies — Telesat* for more information on the risks relating to Telesat's satellites.

Bell ExpressVu is subject to programming and carriage requirements under CRTC regulations. Changes to the regulations that govern broadcasting could negatively affect Bell ExpressVu's competitive position or the cost of providing its services. Bell ExpressVu's DTH satellite television distribution undertaking licence was renewed in March 2004 and expires on August 31, 2010. While we expect this licence will be renewed at term, there is no assurance that this will happen.

Bell ExpressVu and Bell Canada continue to face competition from unregulated U.S. DTH satellite television services that are sold illegally in Canada. In response, it is participating in legal actions that are challenging the sale of U.S. DTH satellite television equipment in Canada. This competition could have a material and adverse impact on Bell ExpressVu's business.

Bell ExpressVu faces a loss of revenue resulting from the theft of its services. Bell ExpressVu introduced a smart card swap for its authorized digital receivers that is designed to block unauthorized reception of Bell ExpressVu's signals. As with any technology-based security system, it is not possible to eliminate with absolute certainty a compromise of that security system. As is the case for all other pay television providers, Bell ExpressVu has experienced, and continues to experience, ongoing efforts to steal its services by way of compromise of Bell ExpressVu's signal security systems.

On October 28, 2004, the Court of Québec ruled in *R. v. D'Argy and Theriault (D'Argy Case)* that the provisions in the *Radiocommuni-cation Act* making it a criminal offence to manufacture, offer for sale or sell any device used to decode an encrypted subscription signal relating to the unauthorized reception of satellite signals violate the freedom of expression rights enshrined in the *Charter*. On March 31, 2005, the Québec Superior Court overruled the Court of Québec's decision in the *D'Argy Case* and upheld the constitutional validity of those provisions in the *Radiocommunication Act*. The defendants in the *D'Argy Case* have been granted leave to appeal the ruling of the Québec Superior Court to the Québec Court of Appeal. It remains a criminal offence throughout Canada to manufacture, offer for sale or sell any device used to engage in the unauthorized reception of satellite signals. If the ruling of the Québec Superior Court is overruled by the Québec Court of Appeal and Parliament does not enact new provisions criminalizing the unauthorized reception of satellite signals, Bell ExpressVu may face increasing loss of revenue from the unauthorized reception of satellite signals.

Bell Globemedia

Dependence on advertising

A large part of Bell Globemedia's revenue from its television and print businesses comes from advertising revenues. Bell Globemedia's advertising revenues are affected by competitive pressures, including its ability to attract and retain viewers and readers. In addition, the amount advertisers spend is directly related to economic growth. An economic downturn tends to make it more difficult for Bell Globemedia to maintain or increase revenues. Advertisers have historically been sensitive to general economic cycles and, as a result, Bell Globemedia's business, financial condition and results of operations could be materially and negatively affected by a downturn in the economy. In addition, most of Bell Globemedia's advertising contracts are short-term and the advertiser can cancel them on short notice.

Increasing fragmentation in television markets

Television advertising revenue largely depends on the number of viewers and the attractiveness of programming in a given market. The viewing market has become increasingly fragmented over the past decade and this trend is expected to continue as new services and technologies increase the choices available to consumers. As a result, there is no assurance that Bell Globemedia will be able to maintain or increase its advertising revenues or its ability to reach or retain viewers with attractive programming.

Revenues from distributing television services

A significant portion of revenues from CTV's specialty television operations comes from contractual arrangements with distributors who are mainly cable and DTH operators. Competition has increased in the specialty television market. As a result, there is no assurance that contracts with distributors will be renewed on equally favourable terms.

Increased competition for fewer print customers

Print advertising revenue largely depends on circulation and readership. The existence of a competing national newspaper and commuter papers in Toronto and other major markets, has increased competition for The Globe and Mail's print operations. In addition, total circulation and readership of Canadian newspapers have continued to decline. There is increasing pressure on print profit margins resulting from more competition in print advertising rates and higher costs of operation.

Broadcast licences and CRTC decisions

Each of CTV's conventional and specialty services operates under licences issued by the CRTC for a fixed term of up to seven years. These licences are subject to the requirements of the *Broadcasting Act*, the policies and decisions of the CRTC, and the conditions of each licensing or renewal decision, all of which may change. While these are expected to be renewed at the appropriate times, there can be no assurance that any or all of CTV's licences will be renewed. Any renewals, changes or amendments to licences and any decisions by the CRTC from time to time that affect the industry as a whole or CTV in particular may have a material and negative effect on Bell Globemedia.

Telesat

Satellite industry risks

Operational risks due to various types of potential anomalies Satellites utilize highly complex technology and operate in the harsh environment of space and therefore are subject to significant operational risks while in orbit. The risks include in-orbit equipment failures, malfunctions and other kinds of problems commonly referred to as anomalies. Any single anomaly or series of anomalies could materially and adversely affect Telesat's operations, revenues, relationship with current customers and the ability to attract new customers for satellite services. The occurrence of anomalies may also adversely affect Telesat's ability to insure the satellites at commercially reasonable premiums, if at all.

Launch failures

Satellites are subject to certain risks related to failed launches. Launch failures result in significant delays in the deployment of satellites because of the need to construct replacement satellites and to obtain other launch opportunities. Such significant delays could materially and adversely affect operations and revenues. Should Telesat not be able to obtain launch insurance on reasonable terms and a launch failure were to occur, Telesat would have to directly suffer the loss of the cost of the satellite and related costs.

Construction and launch delays

The construction and launch of satellites are subject to certain delays which can adversely affect Telesat's operations. Delays in the commencement of service could enable customers who pre-purchased transponder capacity to terminate their contracts and could affect plans to replace an in-orbit satellite prior to the end of its useful life. The failure to implement a satellite deployment plan on schedule could have a material and adverse effect on Telesat's financial condition and results of operations.

Market for satellite insurance

The price, terms and availability of insurance have fluctuated over time. Insurance availability can be affected by recent satellite failures and general conditions in the insurance industry. Launch and in-orbit policies on satellites may not continue to be available on commercially reasonable terms or at all. In addition to higher premiums, insurance policies may provide for higher deductibles, shorter coverage periods, higher loss percentages required for constructive total loss claims and additional satellite health-related policy exclusions.

An uninsured failure of one or more satellites could have a material and adverse effect on Telesat's financial condition and results of operations. In addition, higher premiums on insurance policies increase costs, thereby reducing earnings from operations by the amount of such increased premiums.

With respect to in-orbit satellites, Nimiq 1 is insured until the second quarter of 2006 for approximately its book value. Anik FIR is insured for approximately its book value until the third quarter of 2006. Anik F2 is insured for approximately two thirds of its book value until the third quarter of 2007. In the event of a total failure of the Anik F2 satellite, the after-tax accounting loss is estimated at $105 million to $110 million.

In 2004, Telesat ceased to insure its interest in the residual value of Nimiq 2 following the arrival in orbit of the leased satellite Nimiq 3.

In 2001, the manufacturer of the Anik FI satellite advised Telesat of a gradual decline in power on the satellite. Telesat had insurance in place to cover the power loss on Anik FI and filed a claim with its insurers. Telesat and its insurers reached a final settlement agreement

which included an initial payment to Telesat of US$136.2 million, which has already been received, and originally called for an additional payment of US$49.1 million in 2007 if the power level on Anik Fl degrades as predicted by the manufacturer. In December 2005, Telesat entered into early settlement agreements with certain insurance underwriters, and as a result received US$26.2 million. A balance of US$20.1 million is expected to be received in 2007 if the power level on Anik Fl degrades as predicted. In the event that the power level on Anik Fl is better than predicted, the amount of the payment(s) will be adjusted by applying a formula which is included in the settlement documentation and could result in either a pro-rated payment to Telesat of the additional US$20.1 million or a pro-rated repayment of up to a maximum of US$14.9 million to be made by Telesat to the insurers. Currently, power levels are continuing to degrade as predicted.

In December 2005, Telesat placed launch and in-orbit insurance coverage, covering the launch and first year of in-orbit life, for the approximate book value of Anik F3. Anik F3 is expected to be available for service in the third quarter of 2006.

Telesat has signed contracts with EADS Astrium, SAS, a European satellite manufacturer, for construction of the Nimiq 4 satellite. As the construction contract for Nimiq 4 was recently signed and the satellite is not to be launched until 2008, Telesat has not initiated discussions for the placement of insurance.

Ground operations infrastructure failures

Telesat operates primary and back-up satellite operations centers. Failures could be experienced in the necessary equipment at the primary center, at the back-up facility, or in the communication links between these facilities and remote teleport facilities. A failure or error affecting tracking, telemetry and control operations might lead to a break-down in the ability to communicate with one or more satellites or cause the transmission of incorrect instructions to the affected satellite(s), which could lead to a temporary or permanent degradation in satellite performance or to the loss of one or more satellites.

Business risks and competition

Telesat's primary business activities (broadcast, business networks and carrier services) have been largely dedicated to the Canadian domestic market. This market is characterized by increasing competition and rapid technological development. Telesat competes with US based operators who may have greater financial resources than Telesat and, together with Ciel Satellite Group, who received provisional authority from Industry Canada to operate a broadcast satellite, could capture a larger market share than that currently anticipated by Telesat.

Provision of services into the United States and Latin American markets is subject to certain risks such as changes in foreign government regulations and telecommunication standards, licensing requirements, tariffs, taxes and other matters. Latin American operations are also subject to risks associated with economic and social instability, regulatory and licensing restrictions, exchange controls and significant fluctuations in the value of foreign currencies.

Revenues from two customers represent approximately 34% of Telesat's total revenues. Telesat may have difficulty in replacing these customers should their satellite usage decrease.

Finally, the sale or lease of Ka-band capacity, which permits Telesat to provide broadband Internet access via satellite to markets that Telesat has not previously served, represents a new area of business and may or may not be adopted as Telesat expects.

Foreign exchange risk

A substantial portion of Telesat's capital expenditures and other expenses are in U.S. dollars. However, the currency of revenues and earnings that may be received from satellite infrastructure investments is subject to individual customer contractual arrangements. As a result Telesat may become exposed to foreign exchange differences between the infrastructure investments and the resulting revenues and earnings.

Government regulations

Telesat is subject to the regulatory authority of the Canadian government, primarily the CRTC and Industry Canada, and the national communications authorities of the countries in which it operates. There could be material and adverse affects on Telesat's business should Telesat not obtain all of the required regulatory approvals for the construction, the launch and operation of any of its future satellites, or for the orbital slots planned for these satellites, or if the licences obtained impose operational restrictions, or permit interference which could affect the use of its satellites. In addition, Telesat may not continue to coordinate the satellites successfully under procedures of the International Telecommunications Union.

The CRTC regulates Telesat's radio frequency channel service rates based on certain price ceilings. While the price ceiling levels were established based on prevailing market conditions and are above current rates for certain of Telesat's existing satellite services, there can be no assurance that these ceilings will be appropriate for services offered on any future satellites operated by Telesat in Canada.

In 1999, the U.S. State Department published amendments to the International Traffic in Arms Regulations which included satellites on the list of items requiring export permits. These provisions have constrained Telesat's access to technical information and have had a negative impact on Telesat's international consulting revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The information that appears on pages 2 to 59 of the BCE 2005 annual report under *Management's discussion and analysis* is incorporated herein by reference. Our annual report is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

FOR MORE INFORMATION

DOCUMENTS YOU CAN REQUEST

You can ask us for a copy of any of the following documents:

• this AIF, together with any document, or the relevant pages of any document, incorporated by reference into it

• the comparative financial statements of BCE Inc. for its most recently completed financial year together with the accompanying auditor's report. You will find more financial information in BCE Inc.'s comparative financial statements for its most recently completed financial year

• any interim financial statements of BCE Inc. that were filed after the financial statements for its most recently completed financial year

• the most recent BCE Inc. notice of annual meeting and management proxy circular, which contains more information about directors' and officers' remuneration and indebtedness, principal holders of BCE Inc.'s securities, options to purchase securities and interests of insiders in material transactions, where applicable

• any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus and are not listed above.

Please send your request to the Corporate Secretary of BCE Inc., at 1000, rue de La Gauchetière Ouest, Suite 3700, Montréal, Québec H3B 4Y7.

We will send you the documents at no charge when our securities are being distributed under a preliminary short form prospectus or short form prospectus.

At any other time, we may charge you a reasonable fee if you or the company you work for is not a security holder of BCE Inc.

You can also ask us for a copy of the annual and quarterly management's discussion and analysis of BCE Inc. by contacting the Vice-President, Investor Relations of BCE Inc., at 1000, rue de La Gauchetière Ouest, Suite 3700, Montréal, Québec H3B 4Y7 or by sending an e-mail to investor.relations@bce.ca.

OTHER INFORMATION ABOUT BCE

The transfer agent and registrar for the common shares and preferred shares of BCE Inc. in Canada is Computershare Trust Company of Canada (Computershare) at its principal offices in Montréal and Toronto and in the United States is Computershare Trust Company, Inc. at its principal offices in Denver and New York.

The registrar for BCE Inc.'s debt securities is Computershare, in Montréal, and debt securities may be presented for registration or transfer, at the principal office of Computershare in the cities of Halifax, Montréal, Toronto, Calgary or Vancouver.

Additional information, including directors' and officers' compensation, personal loans to directors and officers, principal holders of BCE Inc.'s securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in BCE Inc.'s management proxy circular for its most recent annual meeting of shareholders that involved the election of directors.

These documents, as well as BCE Inc.'s annual and quarterly reports and news releases, are also available on BCE Inc.'s website at www.bce.ca.

Additional information relating to BCE is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. Additional financial information is provided in BCE Inc.'s financial statements and management's discussion and analysis for 2005.

Shareholder inquiries	1-800-561-0934
Investor relations	1-800-339-6353

SCHEDULE 1 — AUDIT COMMITTEE INFORMATION

1. THE AUDIT COMMITTEE'S CHARTER

The BCE Audit Committee charter is available in the governance section of BCE Inc.'s website at www.bce.ca and attached as Schedule 1A to this AIF.

2. COMPOSITION OF THE AUDIT COMMITTEE

NAME	INDEPENDENT?	FINANCIALLY LITERATE?
T.C. O'Neil — Chair	Yes	Yes
A. Bérard	Yes	Yes
J. Maxwell	Yes	Yes
R.C. Pozen	Yes	Yes
V.L. Young	Yes	Yes

3. RELEVANT EDUCATION AND EXPERIENCE

T.C. O'Neill — Chair

Mr. O'Neill has been a director on the BCE Inc. board since January 2003. He is also Chair of the Audit Committee. He was Chairman and Chief Executive Officer of Price Waterhouse Canada from 1996 to 1998. He was Chief Executive Officer of PricewaterhouseCoopers LLP in Canada from 1998 to 2001 and was Chief Operating Officer of PricewaterhouseCoopers LLP Global Organization from 2000 until January 2002. He also served as Chief Executive Officer of PricewaterhouseCoopers Consulting from January 2002 to May 2002 and then as Chairman of the Board until October 2002. A graduate of Queen's University, Mr. O'Neill received his CA designation in 1970 and was awarded the FCA designation in 1988.

A. Bérard

Mr. Bérard has been a director on the BCE Inc. board since January 2003. He previously served as Chief Executive Officer of the National Bank of Canada from September 1990 to March 2002. He also served as Chairman of the Board from September 1990 to March 2004. Mr. Bérard holds a Fellow's Diploma from the Institute of Canadian Bankers and was Chairman of the Executive Council of the Canadian Bankers' Association from 1986 to 1988.

J. Maxwell

Ms. Maxwell has been a director on the BCE Inc. board since January 2000. She is currently a research fellow of the Canadian Policy Research Networks Inc. since January 2006 and served as President from 1995 until January 2006. Prior to this appointment, she was Associate Director of the School of Political Studies at Queen's University. She acted as Chair of the Economic Council of Canada from 1985 to 1992. Prior to 1985, Ms. Maxwell worked as a consultant and as Director of Policy Studies at the C.D. Howe Institute.

R.C. Pozen

Mr. Pozen has been a director on the BCE Inc. board since February 2002. He is Chairman of the board of MFS Investment Management since January 2004. He is the former Chief of Commerce and Labour, Massachusetts State House and a former Visiting Professor at Harvard Law School. He also served as President of Fidelity Management and Research Company from 1997 to 2001 and as Vice-Chairman of the Board of Fidelity Investments in 2000 and 2001. Mr. Pozen is a graduate of Yale Law School.

V.L. Young

Mr. Young has been a director on the BCE Inc. board since May 1995. He was Chairman and Chief Executive Officer of Fishery Products International Limited from 1984 until May 2001, earning the distinction of CEO of the Year from the Financial Times. He also served as Deputy Minister of the Treasury Board and special advisor to the Premier of Newfoundland, as well as CEO of Newfoundland Hydro. Mr. Young holds an MBA from the University of Western Ontario.

4. RELIANCE ON CERTAIN EXEMPTIONS

Nil

5. RELIANCE ON THE EXEMPTION IN SUBSECTION 3.3(2) OR SECTION 3.6

Nil

6. RELIANCE ON SECTION 3.8

Nil

7. AUDIT COMMITTEE OVERSIGHT

Nil

8. PRE-APPROVAL POLICIES AND PROCEDURES

BCE Inc.'s Auditor Independence Policy is a comprehensive policy governing all aspects of BCE's relationship with the external auditor, including:

• Establishing a process for determining whether various audit and other services provided by the external auditor affect its independence;

• Identifying the services that the external auditor may and may not provide to BCE Inc. and its subsidiaries;

• Pre-approving all services to be provided by the external auditor of BCE Inc. and its subsidiaries; and

• Establishing a process outlining procedures (as part of a separate policy) when hiring current or former personnel of the external auditor in a financial oversight role to ensure auditor independence is maintained.

The Auditor Independence Policy is available in the governance section of BCE Inc.'s website at www.bce.ca.

9. EXTERNAL AUDITOR SERVICE FEES (BY CATEGORY)

The table below shows the fees that Deloitte & Touche LLP, BCE Inc.'s external auditor, billed to BCE Inc. and its subsidiaries for various services for each year in the past two fiscal years.

(in $ millions)	**2005**	2004
Audit fees	**$ 12.2**	$ 11.4
Audit-related fees	**$ 1.9**	$ 3.1
Tax fees	**$ 1.4**	$ 1.9
Other fees	**$ —**	$ —
Total	**$ 15.5**	$ 16.4

Audit fees

These fees include professional services provided by the external auditor for the review of the interim financial statements, statutory audits of the annual financial statements, the review of prospectuses, review of financial accounting and reporting matters, other regulatory audits and filing and translation services.

Audit-related fees

These fees relate to non-statutory audits, Sarbanes-Oxley Act initiatives, due diligence, pension plan audits and the review of financial financial accounting and reporting matters.

Tax fees

These fees include professional services for administering our compliance with our conflict of interest policy for senior management, tax compliance, tax advice, and assistance with tax audits and appeals. Since October 2005, our external auditor no longer provides services with respect to compliance with our conflict of interest policy for senior management.

Other fees

These fees include any other fees for permitted services not included in any of the above-stated categories.

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SCHEDULE 1A — BCE INC. — AUDIT COMMITTEE CHARTER

I. PURPOSE

The purpose of the Audit Committee is to assist the Board of Directors in its oversight of:
A. the integrity of the Corporation's financial statements and related information;
B. the Corporation's compliance with applicable legal and regulatory requirements;
C. the independence, qualifications and appointment of the shareholders' auditor;
D. the performance of the Corporation's shareholders' auditor and internal audit; and
E. management responsibility for reporting on internal controls and risk management.

II. DUTIES AND RESPONSIBILITIES

The Audit Committee shall perform the functions customarily performed by audit committees and any other functions assigned by the Board of Directors. In particular, the Audit Committee shall have the following duties and responsibilities:

A. Financial reporting and control

1. On a periodic basis, review and discuss with management and the shareholders' auditor the following:

a. major issues regarding accounting principles and financial statement presentation, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;

b. analyses prepared by management and/or the shareholders' auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements when such alternatives have been selected in the current reporting period;

c. the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation;

d. the type and presentation of information to be included in earnings press releases (including any use of pro-forma or adjusted non-generally accepted accounting principles, information).

2. Meet to review and discuss with management and the shareholders' auditor, report and, where appropriate, provide recommendations to the Board of Directors on the following prior to its public disclosure:

a. the annual and interim consolidated financial statements, the Corporation's disclosure under "Management Discussion and Analysis", Annual Information Form, earnings press releases, financial information and earnings guidance provided to analysts and rating agencies and the integrity of the financial reporting of the Corporation;

— In addition to the role of the Audit Committee to make recommendations to the Board of Directors, where the members of the Audit Committee consider that it is appropriate and in the best interest of the Corporation, the interim consolidated financial statements, the interim Corporation's disclosure under "Management Discussion and Analysis" for interim period and interim earnings press releases and earnings guidance, may also be approved on behalf of the Board of Directors by the Audit Committee, provided that such approval is subsequently reported to the Board of Directors at its next meeting;

b. any audit problems or difficulties and management's response thereto, including any restrictions on the scope of the activities of the shareholders' auditor or access to requested information and any significant disagreements with management.

3. Review and discuss reports from the shareholders' auditor on:

a. all critical accounting policies and practices used by the Corporation;

b. all material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternate treatments and disclosures and the treatment preferred by the shareholders' auditor; and

c. other material written communications between the shareholders' auditor and management, and discuss such report with the shareholders' auditor.

B. Oversight of the shareholders' auditor

1. Be directly responsible for the appointment, compensation, retention and oversight of the work of the shareholders' auditor and any other auditor preparing or issuing an audit report or performing other audit services or attest services for the Corporation or any consolidated subsidiary of the Corporation, where required and review, report and where appropriate, provide recommendations to the Board of Directors on the appointment, terms and review of engagement, removal, independence and proposed fees of the shareholders' auditor.

2. Approve in advance all audit, review or attest engagement fees and terms for all audit, review or attest services to be provided by the shareholders' auditor to the Corporation and any consolidated

subsidiary and any other auditor preparing or issuing an audit report or performing other audit services or attest services for the Corporation or any consolidated subsidiary of the Corporation, where required.

3. Pre-approve all engagements for permitted non-audit services provided by the shareholders' auditor to the Corporation and any consolidated subsidiary and to this effect may establish policies and procedures for the engagement of the shareholders' auditor to provide to the Corporation and any consolidated subsidiary permitted non-audit services, which shall include approval in advance by the Audit Committee of all audit/review and permitted non-audit services to be provided by the shareholders' auditor to the Corporation and any consolidated subsidiary.

4. Delegate, if deemed appropriate, authority to one or more members of the Audit Committee to grant pre-approvals of audit/review/attest and permitted non-audit services, provided that any such approvals shall be presented to the Audit Committee at its next scheduled meeting.

5. Establish policies for the hiring of partners, employees and former partners and employees of the shareholders' auditor.

6. At least annually, consider, assess, and report to the Board of Directors on:

a. the independence of the shareholders' auditor, including whether the shareholders' auditor's performance of permitted non-audit services is compatible with the shareholders' auditor's independence;

b. obtaining from the shareholders' auditor a written statement (i) delineating all relationships between the shareholders' auditor and the Corporation; (ii) assuring that lead audit partner rotation is carried out, as required by law; and (iii) delineating any other relationships that may adversely affect the independence of the shareholders' auditor; and

c. the evaluation of the lead audit partner, taking into account the opinions of management and internal audit.

7. At least annually, obtain and review a report by the shareholders' auditor describing:

a. the shareholders' auditor's internal quality-control procedures;

b. any material issues raised by the most recent internal quality- control review, or peer review of the shareholders' auditor firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the shareholders' auditor firm, and any steps taken to deal with any such issues.

8. Resolve any disagreement between management and the shareholders' auditor regarding financial reporting.

9. Review audit plan with the shareholders' auditor.

10. Meet periodically with the shareholders' auditor in the absence of management and internal audit.

C. Oversight of internal audit

1. Review and discuss with the head of internal audit, report and, where appropriate, provide recommendations to the Board of Directors on the following:

a. the appointment and mandate of internal audit, including the responsibilities, budget and staffing of the Corporation's internal audit;

b. discuss with the head of internal audit the scope and performance of the internal audit, including a review of the annual internal audit plan, and whether there are any restrictions or limitations on internal audit;

c. obtain periodic reports from the head of internal audit regarding internal audit findings, including the Corporation's internal controls, and the Corporation's progress in remedying any material control deficiencies.

2. Meet periodically with the head of internal audit in the absence of management and the shareholders' auditor.

D. Oversight of the Corporation's internal control system

1. Review and discuss with management, the shareholders' auditor and internal audit, monitor, report and, when appropriate, provide recommendations to the Board of Directors on the following:

a. the Corporation's internal control system;

b. compliance with the policies and practices of the Corporation relating to business ethics;

c. compliance by Directors, Officers and other management personnel with the Corporation's Disclosure Policy; and

d. the relationship of the Audit Committee with other committees of the Board of Directors, management and the Corporation's consolidated subsidiaries' audit committees.

2. Review and discuss with the Chief Executive Officer and Chief Financial Officer of the Corporation the process for the certifications to be provided in the Corporation's public disclosure documents.

3. Review, monitor, report and where appropriate, provide recommendations to the Board of Directors on the Corporation's disclosure controls and procedures.

4. Establish procedures, for the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, including procedures for confidential, anonymous submission by employees regarding questionable accounting or auditing matters.

5. Meet periodically with management in the absence of the shareholders' auditor and internal audit.

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E. Oversight of the Corporation's risk management

1. Review, monitor, report and, where appropriate, provide recommendations to the Board of Directors on the following:

a. the Corporation's processes for identifying, assessing and managing risk; and

b. the Corporation's major financial risk exposures and the steps the Corporation has taken to monitor and control such exposures.

F. Oversight of the Corporation's environmental risks

1. Review, monitor, report, and where appropriate, provide recommendations to the Board of Directors on the Corporation's environmental policy, and environmental management systems.

2. When appropriate, ensure that the Corporation's subsidiaries establish an environmental policy, and environmental management systems and review and report thereon to the Board of Directors of the Corporation.

G. Compliance with legal requirements

1. Review and discuss with management, the shareholders' auditor and internal audit, monitor, report and, when appropriate, provide recommendation to the Board of Directors on the adequacy of the Corporation's process for complying with laws and regulations.

2. Receive, on a periodic basis, reports from the Corporation's Chief Legal Officer, with respect to legal issues.

III. EVALUATION OF THE AUDIT COMMITTEE AND REPORT TO BOARD OF DIRECTORS

A. The Audit Committee shall evaluate and review with the Corporate Governance Committee of the Board of Directors, on an annual basis, the performance of the Audit Committee.

B. The Audit Committee shall review and discuss with the Corporate Governance Committee of the Board of Directors, on an annual basis, the adequacy of the Audit Committee charter.

C. The Audit Committee shall report to the Board of Directors periodically on the Audit Committee's activities.

IV. OUTSIDE ADVISORS

The Audit Committee shall have the authority to engage outside counsel and other outside advisors as it deems appropriate to assist the Audit Committee in the performance of its functions. The Corporation shall provide appropriate funding for such advisors as determined by the Audit Committee.

V. MEMBERSHIP

The Audit Committee shall consist of such number of directors, in no event to be less than three, as the Board of Directors may from time to time by resolution determine. The members of the Audit Committee shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors.

VI. AUDIT COMMITTEE CHAIR

The Chair of the Audit Committee shall be appointed by the Board of Directors. The Chair of the Audit Committee leads the Audit Committee in all aspects of its work and is responsible to effectively manage the affairs of the Audit Committee and ensure that it is properly organized and functions efficiently. More specifically, the Chair of the Audit Committee shall:

A. Provide leadership to enable the Audit Committee to act effectively in carrying out its duties and responsibilities as described elsewhere in this charter and as otherwise may be appropriate;

B. In consultation with the Board Chair and the Chief Executive Officer, ensure that there is an effective relationship between management and the members of the Audit Committee;

C. Chair meetings of the Audit Committee;

D. In consultation with the Chief Executive Officer, the Corporate Secretary's Office and the Board Chair, determine the frequency, dates and locations of meetings of the Audit Committee;

E. In consultation with the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary's Office and, as required, other Officers, review the meeting agendas to ensure all required business is brought before the Audit Committee to enable it to efficiently carry out its duties and responsibilities;

F. Ensure, in consultation with the Board Chair, that all items requiring the Audit Committee's approval are appropriately tabled;

G. Ensure the proper flow of information to the Audit Committee and review, with the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary's Office and, as required, other Officers, the adequacy and timing of materials in support of management's proposals;

H. Report to the Board of Directors on the matters reviewed by, and on any decisions or recommendations of, the Audit Committee at the next meeting of the Board of Directors following any meeting of the Audit Committee; and

I. Carry out any special assignments or any functions as requested by the Board of Directors.

VII. TERM

The members of the Audit Committee shall be appointed or changed by resolution of the Board of Directors to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are so appointed.

VIII. PROCEDURES FOR MEETINGS

The Audit Committee shall fix its own procedure at meetings and for the calling of meetings. The Audit Committee shall meet separately in executive session in the absence of management, internal audit and the shareholders' auditor, at each regularly scheduled meeting.

IX. QUORUM AND VOTING

Unless otherwise determined from time to time by resolution of the Board of Directors, two members of the Audit Committee shall constitute a quorum for the transaction of business at a meeting. For any meeting(s) at which the Audit Committee Chair is absent, the Chair of the meeting shall be the person present who shall be decided upon by all members present. At a meeting, any question shall be decided by a majority of the votes cast by members of the Audit Committee, except where only two members are present, in which case any question shall be decided unanimously.

X. SECRETARY

Unless otherwise determined by resolution of the Board of Directors, the Corporate Secretary of the Corporation or his/her delegate shall be the Secretary of the Audit Committee.

XI. VACANCIES

Vacancies at any time occurring shall be filled by resolution of the Board of Directors.

XII. RECORDS

The Audit Committee shall keep such records as it may deem necessary of its proceedings and shall report regularly its activities and recommendations to the Board of Directors as appropriate.

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SCHEDULE 2 — GLOSSARY

1xRTT means single carrier radio transmission technology;
3G means third generation;
360 networks means 360networks Corporation;
AIF means this Annual Information Form;
Aliant means Aliant Inc.;
Aliant Telecom means Aliant Telecom Inc.;
AMPs means Administrative Monetary Penalties;
ATM means asynchronous transfer mode;
BCE means BCE Inc., its subsidiaries and joint ventures;
BCH means Bell Canada Holdings Inc.;
BCI means Bell Canada International Inc.;
BDI means Bell Distribution Inc.;
BDUs means broadcasting distribution undertakings;
Bell ExpressVu means Bell ExpressVu Limited Partnership;
Bell Globemedia means Bell Globemedia Inc.;
Bell Mobility means Bell Mobility Inc.;
Cable VDN means Cable VDN Inc.;
Call-Net means Call-Net Enterprises Inc.;
CanWest means CanWest Global Communications Corp.;
CATU means the Council of Atlantic Telecommunication Unions;
CDN means competitor digital network;
CEP means the Communications, Energy and Paperworkers Union of Canada;
CGI means CGI Group Inc.;
Charter means The Canadian Charter of Rights and Freedoms;
CIBC means Canadian Imperial Bank of Commerce;
CIDA means Canadian International Development Agency;
CIRB means the Canada Industrial Relations Board;
Cisco means Cisco Systems Canada;
Clearwire means Clearwire Corporation;
CLEC means competitive local exchange carrier;
Cogeco means Cogeco Cable Inc.;
Computershare means Computershare Trust Company of Canada;
CRTC means the Canadian Radio-television and Telecommunications Commission;
CSAs means customer-specific arrangements;
CTEA means the Canadian Telecommunications Employees' Association;
CTV means CTV Inc.;
DBRS means Dominion Bond Rating Service Limited;
Demand Letter means letter of demand dated January 30, 2006 from the Independent Communication Dealer Association of Canada and its Bell independent dealers;
DSL means digital subscriber line;
DTH means direct-to-home;
Eastlink means Eastlink Communications;
Emergis means Emergis Inc.;
Enterprise means large enterprise;
Entourage means Entourage Technology Solutions Inc.;
ERIP means Early Retirement Incentive Program;
EVDO means Evolution, Data Optimized;
Expertech means Expertech Network Installation Inc.;
Fitch means Fitch Ratings Ltd.;
FTTN means fibre-to-the-node;
GeSI means Global e-Sustainability Initiative;
Global Compact means the United Nations Global Compact;
GPS means Global Positioning System;
Group Telecom means GT Group Telecom Services Corporation;
GSM means Global System for Mobile Communications;
HD PVR means high-definition personal video recorder;
ICT means information and communications technology;
Inukshuk means the Inukshuk joint venture;
IOC means International Olympic Committee;
IP means Internet Protocol;
IP-MPLS means IP multi-protocol label-switching;
IPTV means video over Internet Protocol;
IP-VPN means IP virtual private networks;
IS/IT means information systems / information technologies;
ISPs means Internet service providers;
Kbps means kilobits per second;
Mbps means megabits per second;
MDU means multiple-dwelling unit;
Microsoft means Microsoft Corporation;
Mixed CSAs means CSA that includes both tariffed and non-tariffed services;

Moody's means Moody's Investors Service, Inc.;

MPLS means multi-protocol label switching;
MT&T Mobility means MT&T Mobility Inc.;
MTNs means medium term notes;
MTS means Manitoba Telecom Services Inc.;
NAS means network access services;
Nexxlink means Nexxlink Technologies Inc.;
NLOS means non line-of-sight;
Nortel Networks means Nortel Networks Corporation;
NorthernTel means NorthernTel, Limited Partnership;
Northwestel means Northwestel Inc.;
NYSE means New York Stock Exchange;
Panel means Telecom Policy Review Panel;
PCS means personal communications services;
Primus means Primus Telecommunications Canada Inc.;
PTT means push-to-talk;
Purchaser means 6223141 Canada Inc.;
PVRs means personal video recorders;
Rogers means Rogers Communications Inc.;
Rogers Cable means Rogers Cable Inc.;
Rogers Telecom means Rogers Telecom Inc.;
Rogers Wireless means Rogers Wireless Inc.;

S&P means Standard & Poor's, a division of The McGraw-Hill Companies, Inc.;
SAFs means system access fees;
SaskTel means SaskTel Telecommunications;
SFUs means single family units;
SMB means small and medium businesses;
Smiston means Smiston Communications Inc.;
STB means set-top box;
Teachers means Ontario Teachers Pension Plan;
Télébec means Télébec, Limited Partnership;
Teleglobe means Teleglobe Inc.;
Telesat means Telesat Canada;
Telus Communications means Telus Corporation;
Torstar means Torstar Corporation;
TSX means Toronto Stock Exchange;
VarTec means VarTec Telecom, Inc. and VarTec Holding Company;
VAS means value-added services;
VCIO means virtual chief information officer;
VDSL means very high bit rate DSL;
Vidéotron means Vidéotron ltée;
VoIP means Voice over Internet Protocol;
VPN means virtual private network;
WAN means wide area network;
Woodbridge means The Woodbridge Company Limited;
Yellow Pages Group means YPG LP and YPG General Partner Inc.

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SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

BCE Inc.

By: (signed) Siim A. Vanaselja
Siim A. Vanaselja
Chief Financial Officer

Date: March 10, 2006

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Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Differences	Exhibit 99.3
Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 99.31
Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 99.32

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BELL CANADA ENTERPRISES 2005 ANNUAL REPORT

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Please refer to the audited consolidated financial statements when reading this MD&A. You will find more information about BCE, including BCE Inc.'s annual information form for the year ended December 31, 2005 (BCE 2005 AIF) and recent financial reports, on BCE Inc.'s website at *www.bce.ca*, on SEDAR at *www.sedar.com* and on EDGAR at *www.sec.gov.*

In this MD&A, *we*, *us*, *our* and *BCE* mean BCE Inc., its subsidiaries and joint ventures.

All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as *anticipate*, *assumption*, *believe*, *could*, *expect*, *goal*, *guidance*, *intend*, *may*, *objective*, *outlook*, *plan*, *seek, should*, *strive*, *target* and *will*.

Non-GAAP Financial Measures

This section describes the non-GAAP financial measures we use in the MD&A to explain our financial results. It also provides reconciliations of the non-GAAP financial measures to the most comparable Canadian GAAP financial measures.

This management's discussion and analysis of financial condition and results of operations (MD&A) comments on BCE's operations, performance and financial condition for the years ended December 31, 2005 and 2004.

ABOUT FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the company's future prospects and make informed investment decisions.

BCE's 2005 annual report, including this MD&A, contains forward-looking statements about BCE's objectives, plans, strategies, financial condition, results of operations, cash flows and businesses. These statements are forward-looking because they are based on our current expectations, estimates and assumptions about the markets we operate in, the Canadian economic environment and our ability to attract and retain customers and to manage network assets and operating costs. All such forward-looking statements are made pursuant to the 'safe harbor' provisions of the *United States Private Securities Litigation Reform Act of 1995* and of any applicable Canadian securities legislation, including the *Securities Act of Ontario*. It is important to know that:

• **unless otherwise indicated, forward-looking statements in BCE's 2005 annual report, including in this MD&A, describe our expectations at March 1, 2006**

• our actual results could differ materially from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

• except as otherwise indicated by BCE, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. Such statements do not, unless otherwise specified by BCE, reflect the impact of dispositions, sales of assets, monetizations, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. The financial impact of these transactions and non-recurring and other 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.

• we disclaim any intention and assume no obligation to update any forward-looking statement even if new information becomes available as a result of future events or for any other reason.

A number of assumptions were made by BCE in making forward-looking statements in BCE's 2005 annual report, including in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Certain factors that could cause results or events to differ materially from our current expectations include, among others, our ability to implement our strategies and plans, our ability to implement the changes required by our strategic direction, the intensity of competitive activity and the ability to achieve customer service improvement while significantly reducing costs. Assumptions made in the preparation of foward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed throughout this MD&A and, in particular, in *Assumptions Made in the Preparation of Forward-Looking Statements and Risks that Could Affect Our Business and Results.*

NON-GAAP FINANCIAL MEASURES

EBITDA

The term EBITDA does not have any standardized meaning according to Canadian generally accepted accounting principles (GAAP). It is therefore unlikely to be comparable to similar measures presented by other companies. EBITDA is presented on a consistent basis from period to period.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of amortization expense, net benefit plans cost, and restructuring and other items. We exclude amortization expense and net benefit plans cost because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors such as the historical cost of capital assets and the fund performance of a company's pension plans. Excluding restructuring and other items does not imply they are necessarily non-recurring.

EBITDA

We define EBITDA (earnings before interest, taxes, depreciation and amortization) as operating revenues less operating expenses, meaning it represents operating income before amortization expense, net benefit plans cost, and restructuring and other items.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common measurement to value companies in the telecommunications industry.

The most comparable Canadian GAAP financial measure is operating income. The tables below are reconciliations of operating income to EBITDA on a consolidated basis for BCE and Bell Canada.

BCE	**2005**	2004
Operating income	**4,048**	2,894
Amortization expense	**3,114**	3,056
Net benefit plans cost	**380**	256
Restructuring and other items	**55**	1,224
EBITDA	**7,597**	7,430

BELL CANADA	**2005**	2004
Operating income	**3,755**	2,695
Amortization expense	**2,989**	2,962
Net benefit plans cost	**389**	235
Restructuring and other items	**54**	1,219
EBITDA	**7,187**	7,111

OPERATING INCOME BEFORE RESTRUCTURING AND OTHER ITEMS

The term operating income before restructuring and other items does not have any standardized meaning according to Canadian GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies.

We use operating income before restructuring and other items, among other measures, to assess the operating performance of our ongoing businesses without the effects of restructuring and other items. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are necessarily non-recurring.

The most comparable Canadian GAAP financial measure is operating income. The tables below are reconciliations of operating income to operating income before restructuring and other items on a consolidated basis for BCE and Bell Canada.

BCE	**2005**	2004
Operating income	**4,048**	2,894
Restructuring and other items	**55**	1,224
Operating income before restructuring and other items	**4,103**	4,118

BELL CANADA	**2005**	2004
Operating income	**3,755**	2,695
Restructuring and other items	**54**	1,219
Operating income before restructuring and other items	**3,809**	3,914

NET EARNINGS BEFORE RESTRUCTURING AND OTHER ITEMS AND NET GAINS ON INVESTMENTS

The term net earnings before restructuring and other items and net gains on investments does not have any standardized meaning according to Canadian GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies.

We use net earnings before restructuring and other items and net gains on investments, among other measures, to assess the operating performance of our ongoing businesses without the effects of after-tax restructuring and other items and net gains on investments. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are necessarily non-recurring.

The most comparable Canadian GAAP financial measure is net earnings applicable to common shares. The following table is a reconciliation of net earnings applicable to common shares to net earnings before restructuring and other items and net gains on investments on a consolidated basis and per BCE Inc. common share.

	2005		2004	
	TOTAL	PER SHARE	TOTAL	PER SHARE
Net earnings applicable to common shares	**1,891**	**2.04**	1,523	1.65
Restructuring and other items	**38**	**0.04**	772	0.83
Net gains on investments	**(28)**	**(0.03)**	(423)	(0.46)
Net earnings before restructuring and other items and net gains on investments	**1,901**	**2.05**	1,872	2.02

Free Cash Flow

We define free cash flow as cash from operating activities after capital expenditures, total dividends and other investing activities.

FREE CASH FLOW

The term free cash flow does not have any standardized meaning according to Canadian GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies. Free cash flow is presented on a consistent basis from period to period.

We consider free cash flow to be an important indicator of the financial strength and performance of our business because it shows how much cash is available to repay debt and reinvest in our company. We present free cash flow consistently from period to period, which allows us to compare our financial performance on a consistent basis.

We believe that certain investors and analysts use free cash flow to value a business and its underlying assets.

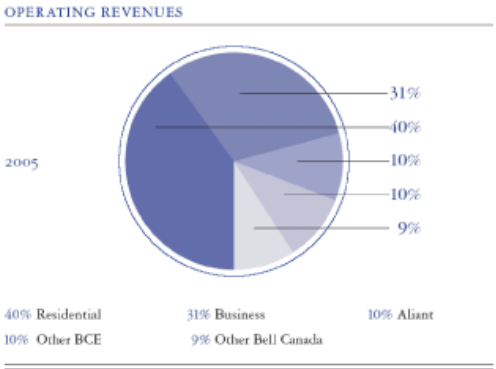
The most comparable Canadian GAAP financial measure is cash from operating activities. The table below is a reconciliation of cash from operating activities to free cash flow on a consolidated basis.

	2005	2004
Cash from operating activities	**5,559**	5,443
Capital expenditures	**(3,428)**	(3,319)
Total dividends paid	**(1,473)**	(1,381)
Other investing activities	**4**	127
Free cash flow	**662**	870

ABOUT OUR BUSINESS

BCE is Canada's largest communications company. Our primary focus is Bell Canada, which encompasses our core business operations and represents the largest component of our business. Bell Canada is the nation's leading provider of wireline and wireless communications services, Internet access, data services and video services to residential and business customers. We report Bell Canada's results of operations in four segments. Each reflects a distinct customer group: *Residential*, *Business*, *Aliant* and *Other Bell Canada*. All of our other activities are reported in the *Other BCE* segment. Our reporting structure reflects how we manage our business and how we classify our operations for planning and measuring performance. We discuss our consolidated operating results in this MD&A, as well as the operating results of each segment. See Note 2 to the consolidated financial statements for information about our segments. We also discuss our results by product line to give further insight into these results.

The following chart shows the operating revenues that each segment contributed to total operating revenues for the year ended December 31, 2005. Some of these revenues vary slightly by season. Business segment revenues tend to be higher in the fourth quarter because of higher levels of voice and data equipment sales. Revenues for the Other BCE segment tend to be highest in the fourth quarter and lowest in the third quarter because of seasonal patterns in advertising spending in the fall and summer, respectively. Our operating income can also vary by season. Residential segment operating income tends to be lower in the fourth quarter due to the higher costs associated with greater subscriber acquisition during the holiday season.



RESIDENTIAL SEGMENT

The Residential segment (formerly the Consumer segment) provides local telephone, long distance, wireless, Internet access, video and other services to Bell Canada's residential customers, mainly in Ontario and Québec. Wireless services are also offered in Western Canada and video services are provided nationwide.

Local telephone and long distance services are sold under the Bell brand, wireless services through Bell Mobility Inc. (Bell Mobility), Internet access under the Sympatico brand and video services through Bell ExpressVu.

BUSINESS SEGMENT

The Business segment provides local telephone, long distance, wireless, data (including Internet access) and other services to Bell Canada's large enterprise (Enterprise) customers and small and medium-sized businesses (SMB) in Ontario and Québec, as well as to business customers in Western Canada through Bell West, our division offering competitive local exchange carrier (CLEC) services in Alberta and British Columbia.

In 2005, Bell Canada acquired a number of small, specialized service companies, allowing us to broaden our product suite of information and communications technology (ICT) solutions (or value-added services (VAS)) for both Enterprise and SMB customers.

The Business segment also reflects the retail portion of the operations of 360 networks Corporation (360 networks) acquired in November 2004 and operating in Western Canada as the Group Telecom unit within Bell Canada.

ALIANT SEGMENT

The Aliant segment provides local telephone, long distance, wireless, data (including Internet access) and other services to residential and business customers in Atlantic Canada, and represents the operations of our subsidiary, Aliant Inc. (Aliant). At December 31, 2005, Bell Canada owned 53% of Aliant. The remaining 47% was publicly held.

OTHER BELL CANADA SEGMENT

The Other Bell Canada segment includes Bell Canada's Wholesale business and the financial results of Télébec Limited Partnership (Télébec), Northern Tel Limited Partnership (Northern Tel) and Northwestel Inc. (Northwestel). Our Wholesale business provides various access and network services to other resale or facilities-based providers of local, long distance, wireless, Internet, data and other telecommunications services. Télébec, Northern Tel and Northwestel provide telecommunications services to less populated areas of Québec, Ontario and Canada's northern territories.

At December 31, 2005, Bell Canada owned 100% of Northwestel and 63% of Télébec and Northern Tel, with the remaining 37% owned by the Bell Nordiq Income Fund.

FORMATION OF REGIONAL TELECOMMUNICATIONS SERVICE PROVIDER

On March 7, 2006, BCE Inc. and Aliant announced their intention to create a new regional telecommunications service provider in the form of an income trust which would combine Bell Canada's regional wireline operations with Aliant's wireline operations. The new trust would also own Bell Canada's 63.4% interest in NorthernTel and Télébec indirectly held through Bell Nordiq Group Inc., an indirect wholly-owned subsidiary of Bell Canada.

By combining these assets, we will create a new regional telecommunications service provider of significant scale and scope that brings a strong focus on customer service and regional needs. The new trust will be controlled by BCE and will remain integral to Bell Canada's operations, ensuring that we retain control of core assets in the most capital efficient way.

The new trust, which will be headquartered in Atlantic Canada, is expected to own approximately 3.4 million local access lines, have approximately 400,000 high-speed Internet subscribers in six provinces, and manage the provision of all wireline, legacy data and Internet products for all residential and business customers located in its territory. The transition to the trust will be seamless for customers as products and services will continue to be sold under the Bell and Sympatico brands within the trust's operating territory in Ontario and Québec and under the Aliant and DownEast brands in Atlantic Canada.

At the same time, in partial exchange for its contribution to a subsidiary of the trust, Bell Canada will acquire Aliant Mobility and Aliant's DownEast Communications retail outlets. Furthermore, approximately $1.25 billion of Bell Canada debt will effectively be transferred to the trust.

Upon closing, BCE will hold a 73.5% indirect interest in the trust, which it expects to reduce to approximately 45% through a distribution of trust units to holders of BCE Inc. common shares. At closing, Aliant's minority shareholders will exchange their common shares for trust units, retaining a 26.5% interest in the new trust. Bell Nordiq Income Fund will continue to trade and operate independently.

BCE plans to establish a governance structure for the proposed income trust in line with comparable current income trust precedents, and will control and consolidate the financial results of the new trust. BCE will retain the ability to nominate a majority of the board of trustees of the trust and of the board of directors of the operating entities of the trust as long as it owns a 30 per cent or more interest in the trust. Also, BCE will have the ability to veto certain actions of the new trust and its operating entities as long as it owns a 20 per cent or more interest in the new trust. At closing, Bell Canada and the trust will enter into a number of outsourcing and commercial agreements pursuant to which Bell Canada will support the operations of the trust. Similar agreements will be entered into between the trust and Bell Canada to support Bell Canada's wireless operations in Atlantic Canada. The transaction is expected to close as early as the third quarter of 2006 but only once all closing conditions are satisfied and all necessary approvals and consents are obtained.

OTHER BCE SEGMENT

The Other BCE segment includes the financial results of our media and satellite businesses, as well as the costs incurred by our corporate office. This segment includes Bell Globemedia Inc. (Bell Globemedia) and Telesat Canada (Telesat).

Bell Globemedia provides information and entertainment services to Canadian customer and access to distinctive Canadian content. It includes CTV Inc. (CTV), Canada's leading private broadcaster, and *The Globe and Mail*, Canada's leading national newspaper. At December 31, 2005, BCE Inc. owned 68.5% of Bell Globemedia. The Woodbridge Company Limited (Woodbridge) and an affiliate owned the remaining 31.5%. On December 2, 2005, BCE Inc. announced a transaction in which it has agreed to sell 20% of Bell Globemedia to Ontario Teachers Pension Plan (Teachers), 20% to Torstar Corporation (Torstar) and an additional 8.5% to Woodbridge, increasing the stake of Woodbridge and its affiliate to 40%. Following completion of the transaction, BCE will retain a 20% interest in Bell Globemedia, which will be accounted for in our results using the equity method of accounting. The transaction, which is subject to a number of approvals and closing conditions, including approval by the CRTC and the Competition Bureau, as well as other closing conditions that are customary in this type of transaction, is expected to close in late 2006.

Telesat is a pioneer in satellite communications and systems management and is an experienced consultant in establishing, operating and upgrading satellite systems worldwide. BCE Inc. owns 100% of Telesat. On February 1, 2006, BCE Inc. announced its intention to implement a recapitalization and launch a public offering of a minority stake of Telesat in the second half of 2006.

BELL CANADA PRODUCTS AND SERVICES

Bell Canada is our primary focus and the largest component of our business. It has six major lines of business:

- local and access services
- long distance services
- wireless services
- data services
- video services
- terminal sales and other.

Local and Access Services

Bell Canada operates an extensive local access network that provides local telephone services to business and residential customers. The 12.6 million local telephone lines, or network access services (NAS), we provide to our customers are key in establishing customer relationships and are the foundation for the other products and services we offer.

Local telephone service is the main source of local and access revenues. Other sources of local and access revenues include:

- VAS, such as call display, call waiting and voicemail
- services provided to competitors accessing our local network
- connections to and from our local telephone service customers for competing long distance companies
- subsidies from the National Contribution Fund to support local service in high-cost areas.

Rates for local telephone and VAS services in our incumbent territories are regulated by the CRTC.

The local telephone services market became increasingly competitive in 2005 as the major cable operators in our Québec and Ontario markets began to offer low-priced cable telephony services. In 2005, we launched our own voice over Internet protocol (VoIP) service for residential customers under the name Bell Digital Voice.

Long Distance Services

We supply long distance voice services to residential and business customers. We also receive settlement payments from other carriers for completing their customers' long distance calls in our territory.

Prices for long distance services have been declining since this market was opened to competition. In 2005, the long distance services market became more competitive with the emergence of cable telephony and the continuing impact of non-traditional suppliers (i.e., prepaid card, dial-around and other VoIP providers).

Wireless Services

We offer a full range of wireless communications services to residential and business customers, including cellular, personal communications services (PCS) and paging. PCS customers can get wireless access to the Internet through our Mobile Browser service or send text messages. We also provide VAS, such as call display and voicemail, data applications including e-mail and video streaming, and roaming services with other wireless service providers. Customers can choose to pay for their cellular and PCS services through a monthly rate plan (postpaid) or in advance (prepaid). At the end of 2005, we had approximately 5.8 million cellular, PCS and paging customers.

The wireless division of each of our incumbent telephone companies provides wireless communications in its home territory, except for Bell Mobility, which

provides these services in its home territory, as well as in Alberta and British Columbia.

Our wireless network provides voice services as well as data services, at typical transmission speeds of approximately 120 kilobits per second (Kbps) delivered over our existing single-carrier radio transmission technology (1xRTT) network. In 2005, we launched Canada's first Evolution, Data Optimized (EVDO) wireless data network in Toronto and Montréal. EVDO technology is the third generation (3G) of wireless networks delivering average data download speeds of 400–700 Kbps with peaks of up to 2.4 megabits per second (Mbps). We expect to deploy EVDO in other major urban centres across Canada in 2006. At the end of 2005, our wireless network covered:

• 95% of the population in Ontario and Québec

• approximately 90% of the population in Atlantic Canada

• the major cities in the provinces of Alberta and British Columbia.

In 2005, we introduced two new brands geared towards the key youth market segment. In February, we launched our joint venture with the Virgin Group to offer wireless services under the Virgin brand. In July, Bell Mobility introduced Solo Mobile, a new brand featuring custom built services and unique applications such as a nationwide pay-per-use push-to-talk (PTT) service and the choice of postpaid or prepaid options. We are the first Canadian wireless operator to actively market PTT to the consumer youth segment.

Data Services

High-speed Internet access service provided through DSL technology for residential and business customers, particularly SMB, is a growth area for Bell Canada. At the end of 2005, we had approximately 2.2 million high-speed Internet customers.

We expanded our DSL high-speed Internet footprint in Ontario and Québec to 85% of homes and business lines passed at the end of 2005, compared with 83% at the end of 2004. In Atlantic Canada, DSL high-speed Internet was available to 81% of homes and 85% of businesses at the end of 2005, compared with 72% and 79%, respectively, at the end of 2004.

During 2005, we enhanced our suite of DSL services by upgrading our Sympatico DSL Basic offering from 256 Kbps to 512 Kbps and by launching a Basic Lite DSL service at 128 Kbps. In addition, we increased our broadband access speed for ultra high-speed users to 5 Mbps from 4 Mbps for residential customers and to 6 Mbps from 4 Mbps for SMB customers.

In 2005, we became a partner in the Inukshuk Joint Venture (Inukshuk). Inukshuk was launched in 2003 to provide wireless high-speed Internet access across Canada using spectrum in the 2.5 GHz range. With Inukshuk, we expect to have the capability to provide broadband connections to virtually all of our customers, either through DSL or through a fixed wireless platform, once the network is fully deployed.

We offer a full range of data services to business customers, including Internet access, Internet protocol (IP) based services, ICT solutions and equipment sales. While we still offer legacy data services such as frame relay and asynchronous transfer mode (ATM), we continued the process of discontinuing the sale of legacy data services other than to current customers.

Video Services

We are Canada's largest digital television provider, broadcasting nationally more than 400 all-digital video and audio channels and a wide range of domestic and international programming. We also offer hardware, including personal video recorders (PVRs), interactive TV services and the most extensive line-up of high definition channels in Canada. We currently distribute our video services to more than 1.7 million customers through Bell ExpressVu and Bell Canada in one of three ways:

• *direct-to-home (DTH) satellite*— we have been offering DTH video services nationally since 1997. We use four satellites: Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-Interim, which was added in the first quarter of 2006 to improve signal strength and reliability while increasing capacity. Telesat, a wholly-owned subsidiary of BCE Inc., operates or directs the operation of these satellites.

• *very high bit rate DSL (VDSL)* — this allows us to expand our reach to the multiple-dwelling unit (MDU) market. By the end of 2005, we had signed access agreements with 757 buildings and had provisioned 464 of them.

• *hybrid fibre co-axial cable*— on August 2, 2005, we acquired the residential assets of Cable VDN Inc. (Cable VDN), a Montréal-based cable company selling residential analog and digital TV. Cable VDN has over 12,500 residential cable subscribers in the Montréal area, representing an approximate 40% penetration within its current footprint. We believe that Cable VDN provides us with a more cost-effective way of addressing the MDU market in Montréal, compared to VDSL, allowing for quicker access to smaller, harder to reach MDUs.

In 2006, we intend to continue investing in our IPTV (video over Internet protocol) platform that will target urban households in markets within the Québec City to Windsor corridor. In 2004, we received CRTC approval of our broadcast licence application to deliver video services terrestrially to single family units (SFUs). We started technical trials of our IPTV service in 2005 and expect to begin customer trials in 2006. IPTV will offer unprecedented interactivity to experience a variety of digital content on your television.

Signal piracy continues to be a major issue facing all segments of the Canadian broadcasting industry. During 2005, we completed the deployment of a new conditional access system (our card swap program) commenced in the previous year. All new customers since August 2004 have been supplied with the new system and, over the past year, we have been replacing the old smart cards of all remaining customers. As of July 2005, customers can only receive DTH video and audio services over the new conditional access system. In addition to the card swap, we continued our ongoing efforts against television signal theft, including sophisticated set-top box (STB) tracking systems and specific point-of-sale practices such as obtaining customer photo identification and credit card information, aggressive measures to investigate and initiate legal action against persons engaged in the manufacture, sale and distribution of signal theft technology, and enforcement of policies with authorized retailers to combat piracy, including a zero tolerance policy for activities related to signal theft.

Terminal Sales and Other

This category includes revenues from a number of other sources, including:

- renting, selling and maintaining business terminal equipment
- wireless handset and video STB sales
- network installation for third parties
- IT services provided by Aliant

DISCONTINUED OPERATIONS

In the past two years we have disposed of, or approved formal plans for disposing of, a number of our businesses, including:

- our decision on December 16, 2005 to sell our investment in CGI Group Inc. (CGI)
- Emergis Inc.'s (Emergis) US Health operations, which were sold in March 2004
- Emergis, which was sold in May 2004.

Our decision to sell our 29.8% stake in CGI was made following a review of our investment, which determined that it was no longer strategically essential for BCE to hold an equity interest in CGI. On the closing date of the transaction (January 12, 2006), we sold 100 million Class A shares to CGI for cash proceeds of $859 million. We intend to dispose of our remaining 28.3 million Class A shares (representing 8.6% of the outstanding shares of CGI).

All of these business dispositions were treated as discontinued operations. We therefore restated the financial results of all previous years to exclude the results of these businesses. They are presented separately in the consolidated financial statements and are discussed separately in this MD&A.

OUR STRATEGIC PRIORITIES

We continued to experience profound changes in our traditional telephone business in 2005. This was driven primarily by the ongoing shift to IP and wireless technologies and new competitive challenges due to the emergence of cable telephony.

Our strategy is to deliver unrivalled integrated communication services to customers, efficiently and cost-effectively. Over the past two years, we have laid the operational foundations for the transformation of the company by returning Bell Canada to its core communications business. We have also made significant progress on our three key pillars that support our strategy:

1. Enhance the customer experience by providing superior products and services that build loyalty
2. Provide abundant and reliable bandwidth to enable the delivery of next-generation services
3. Create next-generation services to drive ongoing profitable growth.

Advancing this strategy requires us to transform our cost structure and the way that we serve our customers. These are the guiding principles at the core of Galileo, our company-wide program designed to save costs by simplifying and enhancing the customer experience. Resetting the cost base should allow us to expand our growth services in the future and drive profitability as we face ongoing erosion of our traditional voice and data businesses. In transforming the cost structure, we are developing a new financial foundation that aims to improve margins, increase profitability and generate higher levels of free cash flow, creating value for all our stakeholders. We have outlined four operating priorities for 2006 to help us achieve this objective:

1. *Service* – we are determined to ensure consistently high levels of service, which should lead to corresponding high levels of customer loyalty

2. *Customer retention* – we are focusing our retention efforts on high-value customers and households with multiple products

3. *Growth* – we are growing next-generation services revenue with the objective that they will represent the majority of Bell Canada's revenues by the end of 2006

4. *Cost* – we are effectively resetting the cost base and developing new sourcing and process redesign initiatives in order to achieve recurring cost savings.

In 2005, we made significant progress in building each of our three key strategic pillars.

1. Enhancing customer experience by providing superior products and services that build loyalty

At the end of 2005, over 22% of the total households in our Ontario and Québec footprint subscribed to three or more products (a combination of local wire-line, Internet, video and long distance services). We believe our multi-product household strategy is effective in fostering customer loyalty and minimizing NAS losses to the competition.

We continued to migrate customers in our Residential segment to our One Bill platform. At the end of 2005, 2.3 million customers were enjoying the benefits of a single bill for their wireline, Internet and video services, representing a more than two-fold increase since the end of 2004. Reducing the number of bills not only improves the customer experience, but also lowers costs since we issue fewer invoices. At the end of the year, we started migrating Bell Mobility customers who already receive a single invoice for their other Bell Canada services to One Bill.

We launched two initiatives to enhance customer support for our Sympatico Internet customers:

• Emily, an online virtual customer service agent who interacts with customers needing help

• Internet Care, an online and phone support service for popular Internet-related products.

We began the rollout of OrderMax, our order entry tool that allows customers to order any Bell Canada product from any channel, through our customer service agents. As at the end of 2005, over 50% of our customer service agents had access to the OrderMax tool, with rollout continuing in 2006.

We launched the beta site of our new Bell.ca website. The new website provides customers with:

• a simplified and consistent page layout

• one process for shopping for any or all of our products

• an improved search engine

• easy access to online bills.

We continued to make progress on moving our core traffic to a national IP multi-protocol label-switching (IP-MPLS) network. At the end of 2005, 78% of the migratable traffic on our core network was IP-based, exceeding our year-end target of 75%.

As part of our shift to IP, we continued the process of rationalizing our legacy data services and stopped selling 28 of these services in 2005. We have discontinued 47 legacy data services since we started this initiative in 2004.

The move to IP continued in 2005 with 57 Enterprise customers contracted to implement IP virtual private networks (IP-VPN), bringing the total number of Enterprise customers implementing IP-VPN networks to 143.

At the end of 2005, 656 Enterprise customers were enrolled in Service Promise, our commitment to provide customers with a clearly defined and consistent level of service for delivering connectivity services.

In 2006, we intend to continue improving service and enhancing the customer experience. In particular, we plan to:

• ensure consistency of service to all of our customers by improving our service provisioning and assurance both in our call centres and in our field operations

• offer the simplicity of a one-contact approach through initiatives such as One Bill and online self-serve tools that allow problems to be registered, ticketed and tracked

• deliver improved service commitments and service levels by significantly reducing the number of missed appointments because of process issues, and by shortening repair times

• offer an end-to-end service desk for our Enterprise customers that includes both connectivity and ICT services.

2. Deliver abundant bandwidth to enable next-generation services

We continued our rollout of fibre-to-the-node (FTTN) by deploying another 1,672 neighbourhood nodes in 2005. This increased the total number to 2,048, exceeding our objective to deploy more than 2,000 nodes by the end of the year.

We launched Canada's first EVDO wireless data network with service available in Montréal, Toronto, Vancouver, Calgary and Edmonton. EVDO enables a new generation of sophisticated wireless data solutions, and increases the speed and potential for current tools such as e-mail, file downloads, instant messaging, streaming video and games.

We announced an alliance with Rogers Communications Inc. (Rogers) to jointly build and manage a national wireless broadband network through Inukshuk. Inukshuk will give subscribers wireless access to the Internet and enable a host of voice, video streaming and data applications from wherever the service is available. The network footprint is expected to reach more than two-thirds of Canadians in less than three years, covering over 40 cities and approximately 50 rural and remote communities that are not currently served.

In 2006, we will continue to expand the reach and speed of DSL service through our FTTN rollout, which will enable speeds of up to 26 Mbps. At the same time, work will proceed on Inukshuk to build a fixed wireless broadband access network and create a network footprint within three years. We anticipate that by 2008, we will have the capability to provide broadband connections to virtually all of our customers, either through DSL or through our fixed wireless platform. We also plan to implement EVDO across most of our wireless coverage areas.

3. Create next-generation services to drive ongoing profitable growth

Our Residential segment introduced Bell Digital Voice in Toronto and Montréal. The new VoIP service, which is the first of its kind in Canada, uses existing phone lines to provide customers with advanced Internet-based calling features along with the reliability of Bell Canada's phone network.

Bell Mobility launched a number of applications designed to drive growth, including:

• 10-4, a new service that allows customers to use their cell phones as walkie-talkies to communicate with up to five other users at the push of a button

• True Tones, a monthly service that enables customers to download actual songs and ringtones

• Seek & Find, a wireless location-based system that allows subscribers to locate multiple individuals away from their homes or offices

• MobiTV, a video application that allows customers with specific mobile handsets to access a variety of video channels

• MSN Messenger, an instant messaging service that allows customers to transmit in real-time text messages to other mobile phones or to PCs on their contact list over the Internet.

Bell Mobility also introduced its first handset compatible with Global System for Mobile Communications (GSM) and launched Canada's first flat per-minute rate billing service for global roaming on GSM networks in up to 150 countries.

Bell ExpressVu introduced a number of new products and services, including:

• a dual-tuner, high-definition personal video recorder (HD-PVR) that allows customers to pause live television, as well as record, replay, stop, fast forward and fast rewind HD and standard definition programming on up to two TVs in the home through a single receiver. Our Residential Internet service was enhanced by the introduction of new services at Sympatico including:

• Sympatico/MSN Video channel, a new service that allows customers to create customized playlists of streaming video clips

• Kidsmania, a new educational online service for children aged 3 to 12, offering more than 50 interactive games and activities.

Our SMB unit launched:

• PC Care and Network Care, two virtual chief information officer (VCIO) solutions that provide software and technical support for customers

• Business IP Voice, a service designed to provide innovative Internet-based technology solutions that deliver business advantages usually only available to large corporations, such as a dedicated, reservation-free conferencing tool and the ability to forward a voice-mail message as an attachment to an e-mail account

• GoTrax, a low-cost remote wireless tracking system that allows assets to be tracked in places where traditional Global Positioning System (GPS) signals do not work.

Our Enterprise unit sold 275,000 IP-enabled lines on customer premises equipment (CPE) by the end of the year, which is a 90% increase over 2004 .

Our Business segment launched Global VoIP solution for Canadian multinationals, a managed IP service that can provide unlimited, international intra-company voice services at a flat rate by interconnecting geographically dispersed customer locations over a virtual private IP network.

In 2006, we plan to introduce EVDO-enabled data applications and other services to our wireless customers, as well as expand our residential broadband services to help customers manage information needs

in their home using our Sympatico-MSN portal. We also plan to exploit our IP capability to achieve interoperability between wireless and wireline platforms. In our video unit, we intend to drive future growth through investing in new growth areas, such as IPTV and HD programming, in our goal to become the leader in on-demand television.

In the Business segment, our Enterprise unit will continue its efforts to expand its ICT solutions by focusing on the financial services, health-care and government sectors. We will also strengthen our capabilities in network security. Our SMB unit will continue to focus on being the premium solutions provider for VAS among small and medium-sized businesses in Canada with the objective of increasing customers' perception of Bell Canada as their VCIO.

Transforming Our Cost Structure

Overall, our various Galileo initiatives resulted in cost reductions of $524 million in 2005, which was consistent with our run-rate savings target of $500 to $600 million. These cost savings were mainly from:

• the 2004 employee departure program

• lower procurement costs

• call centre efficiencies and optimization initiatives

• eliminating network elements and standardizing core operating processes.

In 2006, we will continue to transform our cost structure to support our operations. Enhancements the customer experience and cost structure will be gained primarily through a redesign of our processes and increased controls over discretionary spending.

Accordingly, we have broadened our Galileo program for 2006 to address our annual procurement spend of $8.5 billion. Our goal is to transform the supply chain to reduce the amount we spend each year on delivering service to customers.

Galileo will also continue to address process transformation within the company to lower costs and improve customer experience. Our process transformation initiatives will include:

• continuing to actively encourage customers to adopt new IP-based services

• developing end-to-end process improvements for sales and ordering, installation, billing, collections, and maintenance and repair, which will allow us to deliver our products and services more efficiently

• optimizing management support to reduce costs in our corporate and support functions.

YEAR AT A GLANCE

Our results demonstrate the solid progress we made in 2005 towards achieving our strategic objectives. Although the pace of competition accelerated steadily throughout the year, particularly as a result of the emergence of cable telephony, we continued to execute on our plan to mitigate the impact of this new, more competitive telecommunications landscape. Accordingly, we focused further on profitably growing our wireless, video and high-speed Internet businesses, which helps lay an important foundation for the future growth of the company. We also continued to successfully execute our multi-product household consumer strategy. By the end of 2005, nearly 60% of the households in our Ontario and Québec footprint subscribed to two or more products, while over 22% subscribed to three or more products. Our Business segment made steady progress throughout the year on its IP strategy by leading Bell Canada in the shift towards new growth services, helping to drive its transition towards becoming a leader in ICT. By the end of 2005, revenues from growth services (consisting mainly of wireless, video and data-related products such as high-speed Internet) accounted for 47% of Bell Canada's total revenues for the year, exceeding our target of 45%. Moreover, we also responded to the mounting competitive challenges by proactively taking the lead to deliver unmatched features and reliability for our residential and business customers with the launch of next-generation services such as Bell Digital Voice.

In order to alleviate the pressure on operating margins from the expected erosion in our legacy wireline business, we made significant strides in transforming our cost structure in 2005. Under Galileo, we continued to deliver significant cost savings by improving processes, reviewing procurement activities and eliminating work. Our various initiatives allowed us to reduce costs by $524 million, which was consistent with our run-rate savings target of $500 to $600 million.

We also stepped up efforts to secure customer relationships and improve service. Although we faced a number of customer service challenges brought about by some residual impacts from our wireless billing system migration last year and a four-month labour dispute in Ontario with technicians of Bell Technical Solutions Inc. (formerly Entourage Technology Solutions Inc. (Entourage)), we substantially resolved these issues by the end of the third quarter, allowing us to clear the backlog of orders, improve efficiency and deal with customer issues more promptly.

The Year at a Glance

This section reviews the key measures we use to assess our performance and how our results in 2005 compare to our results in 2004.

In late 2005, we completed two important steps in our ongoing efforts to reshape the company's asset portfolio and bring greater focus to our core businesses by establishing the framework for disposing of our entire interest in CGI and reducing our interest in Bell Globemedia to 20%.

In our Residential segment, revenue growth was fuelled by the strength of our growth services as we continued to execute on our strategy of securing multi-product households to drive customer loyalty and generate higher revenue per household. This growth reflected increased subscriber acquisition in our growth services and higher average revenue per user (ARPU), particularly for video, offset partly by an accelerated decline in legacy wireline revenues.

In our Business segment, increased sales of IP-based connectivity and ICT solutions to our Enterprise and SMB customers and improved wireless results drove revenue growth in 2005. This positive trend now has contributed to six consecutive quarters of improved revenue growth, despite increased competitive pressures and lower demand for legacy wireline services.

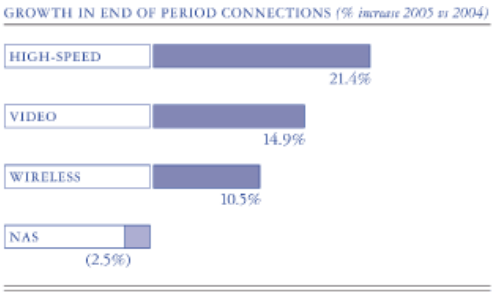
In our Aliant segment, continued strong growth in wireless and Internet services, as well as a recovery from the 2004 labour disruption, offset declines in other areas due to the impact of competition, wireless and Internet substitution and regulatory restrictions.

Within the Other Bell Canada segment, despite a challenging market for our Wholesale business, revenues grew as a result of the acquisition of the operations of 360 networks in November 2004.

In the Other BCE segment, Bell Globemedia delivered better revenue and operating performance compared with last year, which was driven largely by higher television advertising revenue, reflecting strong television ratings and improved subscription revenues. Telesat also had a strong year, reflecting growth in Kaband revenues on its Anik F2 satellite, revenue gains from the installation and maintenance of an Interactive Distance Learning network, and the positive impact from its acquisition of The SpaceConnection, Inc. (SpaceConnection) in January 2005.

CUSTOMER CONNECTIONS

(in thousands)	2005 NET ACTIVATIONS	DECEMBER 31, 2005 CONNECTIONS
NAS	**(324)**	12,581
Digital equivalent access lines	**699**	5,034
High-speed Internet	**387**	2,195
Dial-up Internet	**(157)**	586
Wireless	**516**	5,441
Paging	**(80)**	347
Video	**224**	1,727
Total	**1,265**	27,911



The total number of customer connections increased 4.7%, or 1.3 million, to 27.9 million at December 31, 2005, compared with December 31, 2004.

Network Access Services

NAS in service declined by 324,000 in 2005, or by 2.5%, representing a higher rate of decline compared with a decrease of 1.1% in 2004. The accelerated rate of erosion reflects an increasingly competitive environment as the major cable operators in our Québec and Ontario markets began to offer low-priced cable telephony services. This decline was partly offset by the introduction of our new Bell Digital Voice service and higher demand for access lines from Shaw Communications to implement VoIP services in Western Canada.

High-Speed Internet

We added 387,000 or 21% more net new high-speed Internet customers in 2005, increasing our customer base to 2,195,000 and exceeding our subscriber growth target of 15% to 20% for the year. This was 10.6% higher than the 350,000 net new activations in 2004, mainly because of our Basic Lite product and higher net activations at Aliant.

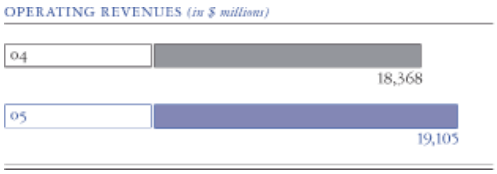
Wireless

Our total cellular and PCS subscriber base grew by 516,000 in 2005, or by 10.5%, to 5,441,000, which was consistent with our guidance for the year. Gross activations were at a record high in 2005, resulting in net activations that were similar to 2004 even though the overall churn rate increased from 1.3% in 2004 to 1.6% in 2005.

Video

We gained significant momentum in our video business in 2005, increasing the subscriber base by 14.9% to 1,727,000 customers at the end of the year, which was at the upper end of our guidance range of 10% to 15%. We activated service for 224,000 new subscribers, almost doubling the growth we experienced in 2004. Our churn rate also decreased to 0.9% from 1.0% in 2004, because of our focus on customer retention, as well as an increase in the percentage of customers on long-term contracts.

OPERATING REVENUES



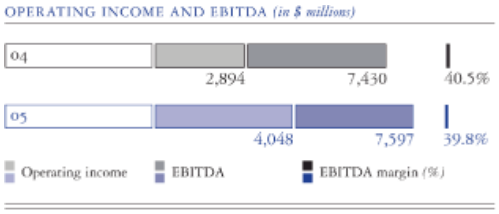
We reached $19,105 million in revenues in 2005, an increase of 4.0% over 2004. This reflects higher revenues across all our segments and met our target of matching or exceeding GDP growth.

Revenues at Bell Canada grew by 2.8%. This was driven primarily by the Business segment, where continued wireless strength, growth of solutions from both business acquisitions and organic growth, as well as focused execution of our VCIO strategy in SMB, led to improved top-line results.

Our Residential segment delivered solid revenue growth as a result of the performance of its video, wireless and Internet services, while Aliant revenues also increased due in part to its recovery from a labour disruption in 2004. These results were achieved despite a continuing decline in revenues from our legacy wire-line business.

The Other BCE segment also contributed to the growth in revenue, mainly because of 9.5% growth at Bell Globemedia and 31% growth at Telesat.

OPERATING INCOME AND EBITDA



Operating income at BCE for 2005 was $4,048 million, or $1,154 million higher than in 2004, due to restructuring and other items of $1,224 million recorded in the previous year related mainly to the employee departure program in 2004. The results for 2005 reflect restructuring and other items of $55 million associated with new restructuring initiatives for involuntary employee departures, as well as the relocation of employees and closing of real estate facilities related to last year's employee departure program.

Operating income before restructuring and other items was $4,103 million, or $15 million lower than 2004. Despite an increase in revenues across all segments, cost savings from the Galileo program and recovery from the 2004 labour disruption at Aliant, operating income was negatively affected by a variety of factors, including:

- the higher cost of acquiring substantially more wireless subscribers
- the CRTC's decision on Competitor Digital Network Services (CDN)
- continued pressure on operating margins from the ongoing transformation of our product mix towards growth services
- the cost of restoring customer service levels following the settlement of the Entourage labour dispute in July
- the impact of higher net benefit plans cost and higher amortization expense for the year.

Operating Income and EBITDA

EBITDA margin is EBITDA divided by operating revenues.

Capital Expenditures

Capital intensity is capital expenditures divided by operating revenues. It is a key financial measure that we use to assess our performance and that of our business units.

Bell Canada's operating income was $3,755 million, or $1,060 million higher than 2004, primarily because of the charges recognized last year for the employee departure program. Operating income before restructuring and other items was $3,809 million, or $105 million lower than 2004, for the same reasons referred to above.

EBITDA at BCE was $7,597 million in 2005, an increase of $167 million or 2.2% over 2004. This is the result of improved performance at Bell Canada, Bell Globemedia and Telesat.

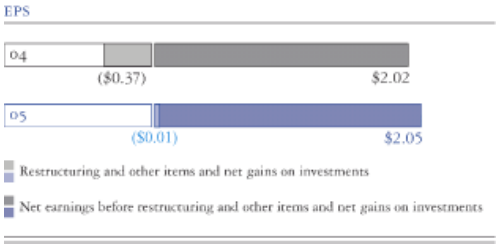
EBITDA for Bell Canada was $7,187 million, or 1.1% higher than 2004, primarily due to increases in our Business segment and at Aliant, which were partly offset by decreases in our Residential and Other Bell Canada segments.

EBITDA margins for 2005 were 39.8% at BCE and 41.7% at Bell Canada, both 0.7 percentage points lower than 2004. The year-over-year declines reflected operating cost pressures, including:

- higher costs for acquiring wireless subscribers
- continued erosion of high-margin legacy voice and data services in all our segments
- the CRTC's CDN decision
- the costs to restore service levels once the labour dispute at Entourage was resolved.

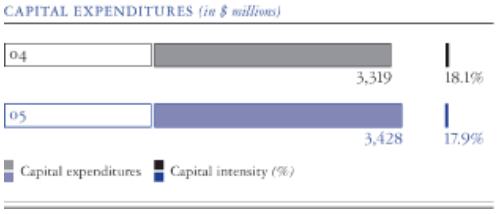
The impact of these elements on EBITDA margins was largely offset by the cost savings achieved through Galileo.

NET EARNINGS AND EARNINGS PER SHARE (EPS)



In 2005, net earnings applicable to common shares were $1,891 million, or $2.04 per common share. This was 24% higher than net earnings of $1,523 million, or $1.65 per common share, in 2004. Included in earnings this year was a net charge of $10 million from restructuring and other items and net gains on investments, compared with a net charge of $349 million for the previous year. Net earnings before restructuring and other items and net gains on investments of $1,901 million, or $2.05 per common share, were up $29 million, or $0.03 per share. This was 1.5% higher than in 2004. The improvement in EPS before restructuring and other items and net gains on investments can be attributed to higher EBITDA combined with the impact from the income tax loss monetization program between Bell Canada and Bell Canada International Inc. (BCI) and net income tax savings. These factors more than offset the increase in net benefit plans cost and amortization expense.

CAPITAL EXPENDITURES



Capital expenditures for BCE were $3,428 million in 2005, which was $109 million, or 3.3%, higher than 2004. Capital spending as a percentage of revenues was 17.9% in 2005 compared with 18.1% in 2004.

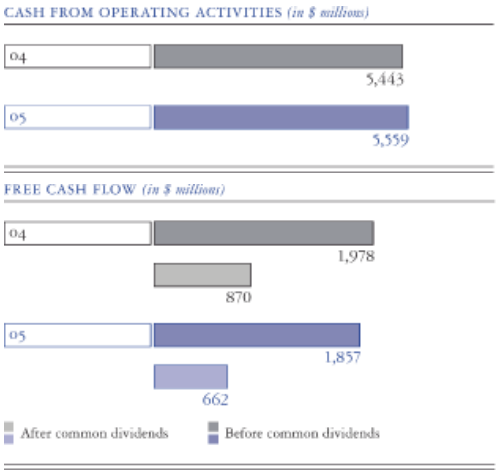
Bell Canada's capital expenditures were $3,122 million, which was $96 million, or 3.2% higher than 2004. As a percentage of revenues, Bell Canada's capital expenditures increased slightly to 18.1% in 2005 from 18.0% in the previous year.

Capital spending in 2005 reflected an increasing investment in the growth areas of the business and reduced spending in legacy areas. Our key strategic investments this year included:

- expanding our FTTN footprint to deliver higher-speed broadband access
- launching our Bell Digital Voice service
- implementing an EVDO wireless data network in certain markets
- expanding our DSL footprint through the deployment of new high-density remotes
- investing in our IPTV platform and IT efficiency projects to achieve cost savings.

Higher spending also resulted from capitalization of STBs and installation costs associated with our new rental program in video and a return to more normal spending levels at Aliant after its labour disruption in 2004 and satellite builds at Telesat.

CASH FROM OPERATING ACTIVITIES AND FREE CASH FLOW



Cash from operating activities was $5,559 million in 2005, or 2.1% higher than 2004. This was a result of:

• an improvement in cash earnings resulting from higher EBITDA

• a significant improvement in accounts receivable collections, mainly due to the resolution of issues associated with the implementation of our new wireless billing platform in 2004

• an increase of $134 million in proceeds from the sale of accounts receivable

• a decrease of $77 million in restructuring payments relating to restructuring initiatives in 2004 and 2005.

These improvements were partly offset by:

• higher pension and other benefit plan payments, mainly at Aliant

• an increase of $73 million in income taxes paid, primarily related to the final instalment for 2004, which was made in 2005 as instalments were not required at Bell Canada in 2004

• a $75 million settlement payment received from Manitoba Telecom Services Inc. (MTS) in 2004.

We generated $662 million of free cash flow for 2005, meeting our target of $600 to $800 million for the year. On December 16, 2005, we adjusted our 2005 guidance for free cash flow from the range of $700 to $900 million to $600 to $800 million to reflect the pending sale of CGI. Free cash flow of $662 million for 2005 was $208 million lower than 2004, mainly because of:

• a decrease of $149 million in insurance proceeds received by Telesat

• an increase of $109 million in capital expenditures related to our investment in platforms for next-generation service platforms

• an increase of $87 million in dividends paid on common shares, resulting from the quarterly dividend increase of $0.03 per common share.

These items were offset in part by a $116 million increase in cash from operating activities.

NEW LABOUR AGREEMENTS

During the year, we signed a number of new labour agreements, including:

• a four-year collective agreement with approximately 10,000 clerical and associated employees represented by the Canadian Telecommunications Association (CTEA) that expires in July 2009

• a new four-year collective agreement between Bell Technical Solutions (formerly Entourage) and the 1,000 Québec technicians unionized with the Communications, Energy and Paperworkers Union of Canada (CEP) that expires in May 2009

• a new four-year collective agreement between Bell Technical Solutions and the 1,400 Ontario technicians unionized with the CEP was also reached, ending a four-month labour disruption. This agreement will expire in August 2009.

With these new agreements and certain other major agreements signed by Bell Canada and Aliant with their respective employees in 2004, we now have the labour stability and a more competitive cost structure needed to deliver quality services and value to customers over the next several years.

ENHANCING SHAREHOLDER RETURNS

On February 1, 2006, BCE Inc. announced its plan to repurchase 5% of its outstanding common shares through a normal course issuer bid (NCIB). In addition, on March 7, 2006 BCE Inc. announced its intention to distribute an approximate 28.5% interest in a new income trust to all its common shareholders on a pro-rata basis and in exchange reduce approximately 8% of its common shares outstanding.

Selected Annual and Quarterly Information

This section shows selected financial and operational data.

EBITDA to interest ratio is EBITDA divided by interest expense.

Operating margin is operating income divided by operating revenues.

ROE (return on common shareholders' equity) is calculated as net earnings applicable to common shares as a percentage of average common shareholders' equity.

Net debt to EBITDA is net debt divided by EBITDA .

Total debt to total assets is total long-term debt (including debt due within one year) divided by total assets.

Long-term debt to equity is long-term debt (including any portion due within one year) divided by shareholders' equity.

Cash flow per share is calculated by dividing cash from operating activities less capital expenditures by the average number of common shares outstanding.

SELECTED ANNUAL AND QUARTERLY INFORMATION

ANNUAL FINANCIAL INFORMATION

The following tables show selected consolidated financial data, prepared in accordance with Canadian GAAP, for each year from 2001 to 2005. We discuss the factors that caused our results to vary over the past two years throughout this MD&A.

	2005	2004	2003	2002	2001
Operations					
Operating revenues	**19,105**	18,368	18,057	18,349	18,058
Operating expenses	**(11,508)**	(10,938)	(10,776)	(11,064)	(11,285)
EBITDA	**7,597**	7,430	7,281	7,285	6,773
Amortization expense	**(3,114)**	(3,056)	(3,062)	(2,999)	(3,267)
Net benefit plans (cost) credit	**(380)**	(256)	(175)	33	121
Restructuring and other items	**(55)**	(1,224)	(14)	(768)	(977)
Operating income	**4,048**	2,894	4,030	3,551	2,650
Other income	**8**	407	177	2,413	3,891
Impairment charge	**—**	—	—	(765)	—
Interest expense	**(981)**	(999)	(1,100)	(1,119)	(966)
Pre-tax earnings from continuing operations	**3,075**	2,302	3,107	4,080	5,575
Income taxes	**(893)**	(681)	(1,086)	(1,585)	(1,648)
Non-controlling interest	**(267)**	(174)	(201)	(663)	(360)
Earnings from continuing operations	**1,915**	1,447	1,820	1,832	3,567
Discontinued operations	**46**	77	(5)	575	(3,131)
Net earnings before extraordinary gain	**1,961**	1,524	1,815	2,407	436
Extraordinary gain	**—**	69	—	—	—
Net earnings	**1,961**	1,593	1,815	2,407	436
Dividends on preferred shares	**(70)**	(70)	(64)	(59)	(64)
Premium on redemption of preferred shares	**—**	—	(7)	(6)	—
Net earnings applicable to common shares	**1,891**	1,523	1,744	2,342	372
Included in net earnings:					
Net gains on investments					
Continuing operations	**29**	389	84	1,341	3,184
Discontinued operations	**(1)**	34	(86)	607	(1,943)
Restructuring and other items	**(38)**	(772)	(3)	(441)	(462)
Impairment charge	**—**	—	—	(527)	—
Goodwill amortization	**—**	—	—	—	(971)
Other	**—**	—	—	—	(44)
Net earnings per common share:					
Continuing operations — basic	**1.99**	1.49	1.91	2.08	4.34
Continuing operations — diluted	**1.99**	1.49	1.90	2.05	4.28
Net earnings — basic	**2.04**	1.65	1.90	2.66	0.46
Net earnings — diluted	**2.04**	1.65	1.89	2.62	0.46
Ratios					
EBITDA margin (%)	**39.8%**	40.5%	40.3%	39.7%	37.5%
EBITDA to interest ratio (times)	**7.74**	7.44	6.62	6.51	7.01
Operating margin (%)	**21.2%**	15.8%	22.3%	19.4%	14.7%
ROE (%)	**14.8%**	12.5%	15.2%	17.8%	2.4%

Cash flow yield is cash from operating activities less capital expenditures, other investing activities, dividends on preferred shares and dividends paid by subsidiaries to non-controlling interest, divided by the number of common shares outstanding at the end of the year and multiplied by the share price at the end of the year.

Market capitalization is BCE Inc.'s share price at the end of the year multiplied by the number of common shares outstanding.

Book value per share is common shareholders' equity divided by number of common shares outstanding.

Common dividend yield is dividends paid on common shares divided by BCE Inc.'s share price at the end of the year multiplied by the number of common shares outstanding.

Common dividend payout ratio is dividends paid on common shares divided by net earnings applicable to common shares.

Price to earnings ratio is BCE Inc.'s share price at the end of the year divided by earnings per share.

Price to book ratio is BCE Inc.'s share price divided by the book value per share.

Price to cash flow ratio is BCE Inc.'s share price at the end of the year divided by cash flow per share.

	2005	2004	2003	2002	2001
Balance Sheet					
Total assets	**40,630**	39,140	39,402	39,125	53,674
Long-term debt (including current portion)	**13,405**	12,802	13,802	14,673	11,793
Net debt	**13,129**	12,644	13,274	15,178	12,905
Total capitalization	**30,748**	29,576	30,236	31,356	35,072
Preferred shares	**1,670**	1,670	1,670	1,510	1,300
Common shareholders' equity	**13,051**	12,354	11,895	11,090	15,266
Ratios					
Net debt to total capitalization (%)	**42.7%**	42.8%	43.9%	48.4%	36.8%
Net debt to EBITDA (times)	**1.73**	1.70	1.82	2.08	1.91
Total debt to total assets (times)	**0.33**	0.33	0.35	0.39	0.24
Long-term debt to equity (times)	**0.91**	0.91	1.02	1.16	0.71
Cash Flows					
Cash flows from operating activities	**5,559**	5,443	5,890	4,409	4,024
Cash flows from investing activities	**(3,866)**	(3,635)	(2,875)	(7,003)	(698)
Capital expenditures	**(3,428)**	(3,319)	(3,101)	(3,691)	(4,885)
Business acquisitions	**(228)**	(1,118)	(54)	(6,455)	(307)
Business dispositions	**—**	20	54	3,187	248
Other investing activities	**4**	127	62	10	(79)
Cash flows from financing activities	**(1,643)**	(2,300)	(2,949)	3,370	(1,921)
Net issuance (repayment) of equity instruments	**25**	32	172	2,819	(120)
Net issuance (repayment) of debt instruments	**(54)**	(820)	(1,827)	2,014	(1,489)
Financing activities of subsidiaries with third parties	**(77)**	(50)	24	92	1,010
Cash dividends paid on common shares	**(1,195)**	(1,108)	(1,029)	(999)	(969)
Cash dividends paid on preferred shares	**(86)**	(85)	(61)	(43)	(64)
Cash dividends paid by subsidiaries to non-controlling interest	**(192)**	(188)	(184)	(468)	(357)
Cash provided by (used in) discontinued operations	**15**	150	350	(1,039)	(1,095)
Ratios					
Free cash flow	**662**	870	1,577	(782)	(2,330)
Capital intensity (%)	**17.9%**	18.1%	17.2%	20.1%	27.1%
Cash flow per share (dollars)	**2.30**	2.30	3.03	0.85	(1.07)
Cash flow yield (%)	**7.2%**	7.4%	9.8%	0.8%	(4.7%)
Share Information					
Average number of common shares (millions)	**926.8**	924.6	920.3	847.9	807.9
Common shares outstanding at end of year (millions)	**927.3**	925.9	924.0	915.9	808.5
Market capitalization	**25,844**	26,777	26,704	26,103	29,114
Dividends declared per common share (dollars)	**1.32**	1.20	1.20	1.20	1.20
Book value per share (dollars)	**14.07**	13.34	12.87	12.11	18.88
Total dividends declared on common shares	**(1,222)**	(1,110)	(1,105)	(1,031)	(969)
Total dividends declared on preferred shares	**(70)**	(70)	(64)	(59)	(64)
Market price per common share (dollars)					
High	**32.95**	30.00	32.35	36.87	43.50
Low	**26.60**	25.75	26.60	23.00	32.75
Close	**27.87**	28.92	28.90	28.50	36.01
Ratios					
Common dividend yield (%)	**4.6%**	4.1%	3.9%	3.8%	3.3%
Common dividend payout ratio (%)	**63.2%**	72.8%	59.0%	42.7%	260.5%
Price to earnings ratio (times)	**13.66**	17.53	15.21	10.71	78.28
Price to book ratio (times)	**1.98**	2.17	2.25	2.35	1.91
Price to cash flow ratio (times)	**12.12**	12.57	9.54	33.53	(33.65)
Other Data					

Number of employees (thousands) (1)	**60**	62	64	64	73

(1) The number of employees for 2004 excludes virtually all employees who left under the voluntary departure program of 2004.

Digital equivalent access lines are derived by converting low capacity data lines (DS-3 and lower) to the equivalent number of voice-grade access lines.

ARPU (average revenue per unit) and *ARPS (average revenue per subscriber)* represent a measurement of the average revenue generated by each unit or subscriber, expressed as a rate per month for the year.

Churn is the rate at which existing subscribers cancel their services. Churn is calculated as the number of subscribers disconnected divided by the average subscriber base.

Cost of acquisition (COA) is also referred to as subscriber acquisition costs. This measure is expressed per gross activation. It includes costs associated with acquiring a customer such as hardware subsidies, marketing and distribution costs.

ANNUAL OPERATIONAL INFORMATION

The table below shows selected data on operations from 2003 to 2005.

	2005	2004	2003
Wireline			
Local network access services (thousands)	**12,581**	12,905	13,051
Long distance conversation minutes (millions)	**18,306**	18,070	19,132
Long distance average revenue per minute (cents)	**10.2**	11.7	12.4
Data			
Digital equivalent access lines (thousands)	**5,034**	4,335	3,867
High-speed Internet net activations (thousands)	**387**	350	358
High-speed Internet subscribers (thousands)	**2,195**	1,808	1,458
Dial-up Internet subscribers (thousands)	**586**	743	869
Wireless			
Cellular and PCS net activations (thousands)	**516**	513	514
Cellular and PCS subscribers (thousands)	**5,441**	4,925	4,412
Average revenue per unit ($/month)	**49**	49	48
Churn (%) (average per month)	**1.6%**	1.3%	1.4%
Cost of acquisition ($/subscriber)	**406**	411	426
Paging subscribers (thousands)	**347**	427	524
Video			
Video net activations (thousands)	**224**	116	83
Video subscribers (thousands)	**1,727**	1,503	1,387
Average revenue per subscriber ($/month)	**50**	49	46
Churn (%) (average per month)	**0.9%**	1.0%	1.1%
Cost of acquisition ($/subscriber) (1)	**375**	571	532

(1) The 34% decrease in COA over 2004 was impacted by the capitalization of STBs and installation costs associated with our new rental program.

QUARTERLY FINANCIAL INFORMATION

The table below shows selected consolidated financial data by quarter for 2005 and 2004. This quarterly information is unaudited but has been prepared on the same basis as the annual consolidated financial statements. We discuss the factors that caused our results to vary over the past eight quarters throughout this MD&A.

	2005					2004				
	YEAR	Q4	Q3	Q2	Q1	YEAR	Q4	Q3	Q2	Q1
Operating revenues	**19,105**	**4,986**	**4,732**	**4,757**	**4,630**	18,368	4,769	4,556	4,577	4,466
EBITDA	**7,597**	**1,858**	**1,864**	**1,972**	**1,903**	7,430	1,794	1,901	1,920	1,815
Amortization expense	**(3,114)**	**(791)**	**(786)**	**(776)**	**(761)**	(3,056)	(787)	(754)	(757)	(758)
Net benefit plans cost	**(380)**	**(65)**	**(108)**	**(104)**	**(103)**	(256)	(67)	(61)	(65)	(63)
Restructuring and other items	**(55)**	**(23)**	**(31)**	**(5)**	**4**	(1,224)	(126)	(1,081)	(14)	(3)
Operating income	**4,048**	**979**	**939**	**1,087**	**1,043**	2,894	814	5	1,084	991
Earnings from continuing operations	**1,915**	**418**	**448**	**570**	**479**	1,447	354	90	529	474
Discontinued operations	**46**	**12**	**11**	**11**	**12**	77	11	10	42	14
Extraordinary gain	**—**	**—**	**—**	**—**	**—**	69	69	—	—	—
Net earnings	**1,961**	**430**	**459**	**581**	**491**	1,593	434	100	571	488
Net earnings applicable to common shares	**1,891**	**413**	**441**	**563**	**474**	1,523	417	82	554	470
Included in net earnings:										
Net gains on investments										
Continuing operations	**29**	**—**	**—**	**28**	**1**	389	64	325	—	—
Discontinued operations	**(1)**	**—**	**—**	**—**	**(1)**	34	(2)	(2)	31	7
Restructuring and other items	**(38)**	**(16)**	**(21)**	**(3)**	**2**	(772)	(62)	(725)	16	(1)
Net earnings per common share										
Continuing operations — basic	**1.99**	**0.43**	**0.46**	**0.60**	**0.50**	1.49	0.37	0.08	0.55	0.49
Continuing operations — diluted	**1.99**	**0.43**	**0.46**	**0.60**	**0.50**	1.49	0.37	0.08	0.55	0.49
Net earnings — basic	**2.04**	**0.44**	**0.48**	**0.61**	**0.51**	1.65	0.45	0.09	0.60	0.51
Net earnings — diluted	**2.04**	**0.44**	**0.48**	**0.61**	**0.51**	1.65	0.45	0.09	0.60	0.51
Average number of common shares outstanding (millions)	**926.8**	**927.3**	**927.0**	**926.6**	**926.2**	924.6	925.3	924.6	924.3	924.1

Financial Results Analysis

This section provides detailed information and analysis about our performance over the past two years. It focuses on our consolidated operating results and provides financial information for each of our operating segments.

FINANCIAL RESULTS ANALYSIS

CONSOLIDATED ANALYSIS

	2005	2004	% CHANGE
Operating revenues	**19,105**	18,368	4.0%
Operating expenses	**(11,508)**	(10,938)	(5.2%)
EBITDA	**7,597**	7,430	2.2%
Amortization expense	**(3,114)**	(3,056)	(1.9%)
Net benefit plans cost	**(380)**	(256)	(48.4%)
Restructuring and other items	**(55)**	(1,224)	95.5%
Operating income	**4,048**	2,894	39.9%
Other income	**8**	407	(98.0%)
Interest expense	**(981)**	(999)	1.8%
Pre-tax earnings from continuing operations	**3,075**	2,302	33.6%
Income taxes	**(893)**	(681)	(31.1%)
Non-controlling interest	**(267)**	(174)	(53.4%)
Earnings from continuing operations	**1,915**	1,447	32.3%
Discontinued operations	**46**	77	(40.3%)
Net earnings before extraordinary gain	**1,961**	1,524	28.7%
Extraordinary gain	**—**	69	N/M
Net earnings	**1,961**	1,593	23.1%
Dividends on preferred shares	**(70)**	(70)	—
Net earnings applicable to common shares	**1,891**	1,523	24.2%
EPS	**2.04**	1.65	23.6%

N/M: Not meaningful

Operating Revenues

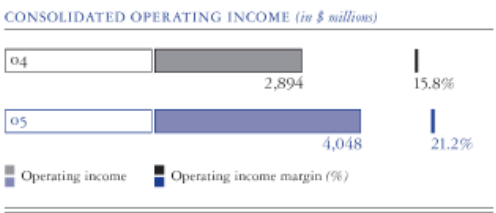
Our revenues increased to $19,105 million in 2005, 4.0% higher than 2004. This reflected improved revenue performance across all our segments and surpassed our target of matching or exceeding gross domestic product (GDP) growth. Revenues at Bell Canada grew by 2.8%. This was driven primarily by the Business segment, where continued wireless strength, growth of ICT solutions from both business acquisitions and organic growth as well as focused execution of our VCIO strategy in SMB led to improved top-line results. Our Residential segment delivered solid revenue growth as a result of the performance of its video, Internet and wireless services, while Aliant revenues also increased due in part to its recovery from a labour disruption in 2004. These results were achieved despite continued decreases in legacy wireline services. Higher revenues at our Other BCE segment, fuelled by stronger advertising and subscriber revenues at Bell Globemedia and higher business networks and broadcast revenue at Telesat combined with the positive impact from its acquisition of SpaceConnection, further contributed to overall revenue growth.

We expect continued revenue growth at Bell Canada in 2006, as anticipated increases in revenue from our growth services should more than offset further erosion of our legacy wireline business. We expect to reach an inflection point in 2006, where growth services should represent the majority of Bell Canada revenues by the end of the year. Revenue growth is expected to be fuelled by continued solid increases in the number of subscribers in our wireless, video and high-speed Internet units in combination with higher average revenue per user (ARPU) for these services, and further traction of our ICT and VCIO strategies within the Business segment.

For local and access and long distance revenues, we expect the negative trends experienced in the past few years to continue and the rate of NAS erosion to accelerate in 2006 as cable operators capture a greater share of the local telephone market with their low-priced bundled offers. We also expect the decline in revenue from legacy services in our Enterprise and Wholesale business units to continue in 2006 because of ongoing pressures on competitive pricing and the migration to IP networks and services.

See *Segmented Analysis* for a discussion of operating revenues on a segmented basis, and *Product Line Analysis* for a discussion of operating revenues on a product line basis.

Operating Income



Operating income at BCE was $4,048 million in 2005 , an increase of $1,154 million over the previous year, which included restructuring and other items of $1,224 million related primarily to the employee departure program in 2004 . The results for 2005 include restructuring and other items of $55 million associated with new restructuring initiatives for involuntary employee departure, as well as relocation of employees and closing of real

estate facilities related to last year's

employee departure program. Operating income before restructuring and other items was $15 million, or 0.4% lower than the previous year. Despite an increase in revenues across all segments, Galileo cost savings and the recovery from the 2004 labour disruption at Aliant, operating income before restructuring and other items decreased as it was negatively impacted by a number of factors, including:

• the higher cost of acquiring substantially more wireless subscribers

• the CRTC's CDN decision

• continued pressure on operating margins from the ongoing transition of our product mix towards growth services

• the cost of restoring customer service levels following the settlement of the Entourage labour dispute in July

• higher net benefit plans cost and amortization expense.

Similarly, at Bell Canada, operating income for the year was $3,755 million, or $1,060 million higher than 2004 because of charges recognized in the previous year for the employee departure program. Operating income before restructuring and other items declined by $105 million, or 2.7%, to $3,809 million in 2005, compared with $3,914 million in the previous year.

See *Segmented Analysis* for a discussion of operating income on a segmented basis.

EBITDA

EBITDA increased 2.2%, or $167 million, to $7,597 million in 2005 because of improved performance at Bell Canada, Bell Globemedia and Telesat. EBITDA for Bell Canada was $7,187 million, representing a 1.1% increase over 2004, driven primarily by increases in our Business segment and at Aliant, which were partly offset by decreases in our Residential and Other Bell Canada segments.

EBITDA margins for 2005 were 39.8% at BCE and 41.7% at Bell Canada, both down 0.7 percentage points compared with 2004. The year-over-year declines reflected operating cost pressures, which included higher wireless acquisition costs, continued erosion of high-margin legacy voice and data services in all our segments, the CRTC's CDN decision, as well as the costs to restore service levels subsequent to the resolution of the labour dispute with our technicians in Ontario. The impact of these elements on EBITDA margin was largely offset by the savings in operating costs achieved through Galileo.

Wireless EBITDA for 2005 increased by 10.1% to $1,307 million, reflecting wireless services revenue growth of 9.9%. The positive contribution from higher revenue was offset partly by the cost of acquiring 20% more gross subscriber activations year-over-year, as well as by higher bad debt expense and customer-service related costs during the first half of 2005, which contributed to a slight 0.3 percentage-point decline in EBITDA margin to 41.2%.

Wireless cost of acquisition (COA) decreased 1.2% to $406 per gross activation in 2005 from $411 per gross activation in 2004 due to higher gross activations, despite greater hardware subsidization of more expensive handsets and promotional incentives to acquire higher ARPU and longer-term contract customers.

Video EBITDA for 2005 increased to $45 million from negative $19 million in the previous year, reflecting strong double-digit revenue growth as well as lower subscriber acquisition costs due to the larger number of customers choosing the STB rental option. The improvement was offset somewhat by higher costs incurred to handle increased call volumes at our contact centres.

The COA for video services was $375 per gross activation in 2005, a decrease of 34% and a significant improvement from $571 per gross activation in 2004. This was mainly the result of the capitalization of STBs and installation costs associated with our new rental program and fewer promotional offers, which were partly offset by a higher number of new customers purchasing additional STBs.

In 2006, the expected benefits of our Galileo cost savings initiatives combined with anticipated revenue increases from our growth services are expected to mitigate further declines in our legacy businesses. We are targeting significant cost savings as a result of internal process redesign and supply transformation.

Amortization Expense

Amortization expense increased $58 million to $3,114 million in 2005, representing a 1.9% increase from 2004. This was a result of an increase in our capital asset base from higher investment in the growth areas of the business, as well as overall capital spending that continues to be higher than asset retirements.

Amortization Expense

The amount of our amortization expense in any year is affected by:

• how much we invested in new capital assets in previous years

• how many assets we retired during the year

• changes in accounting rules and estimates.

Each year, we review our estimate of the useful life of our capital assets.

Net Benefit Plans Cost

The amount of the net benefit plans cost in a year mainly depends on:

• the return on pension plan assets that we expected to be generated during the year — the lower the return, the higher the cost

• the present value of future pension benefit payments to employees — the lower the present value, the lower the cost

• actuarial gain (loss) — the difference between the actual funded status of our pension plans and the amount calculated using our accounting assumptions. We amortize this into earnings over time.

Restructuring and Other Items

This category includes various income and expenses that are not directly related to the operating revenues generated during the year. Examples are costs related to streamlining initiatives, asset write-downs and other types of income or charges.

Amortization expense is expected to increase in 2006 as a result of an increase in our capital base. This increase reflects the capitalization of STBs and installation costs associated with the new rental program in our video business unit, the completion in 2005 of the Alberta SuperNet (a next-generation network bringing high-speed Internet and broadband capabilities to communities in Alberta) and Telesat's new Anik F1R and Anik F3 satellites.

Net Benefit Plans Cost

The net benefit plans cost increased $124 million to $380 million in 2005. This was 48% higher than the cost of $256 million in 2004, and resulted mainly from:

• a reduction in the discount rate from 6.5% to 6.2%, which increased the accrued benefit obligation of our pension plans

• a reduction in the plan asset base due to the amortization of investment losses in 2001 and 2002

• fully amortizing in 2004 the savings relating to the transitional asset that arose when we adopted new accounting rules in 1987

• an increase in pension obligations from the early retirement program implemented in 2004.

This was partly offset by a $44 million curtailment gain associated with the phase-out, over the next three years, of a discretionary allowance program.

Net benefit plans cost is expected to increase in 2006, mainly as a result of a further reduction in the discount rate from 6.2% to 5.2%. This will lead to an increase in the accrued benefit obligation of our pension plans.

Restructuring and Other Items

We recorded restructuring and other items of $55 million in 2005. These included:

• charges of $51 million related to new restructuring initiatives for the involuntary departure of approximately 950 employees

• charges of $49 million for relocating employees and closing real estate facilities that are no longer needed because of the reduction in the workforce resulting from the 2004 employee departure program.

These charges were partly offset by reversals of restructuring provisions of $45 million that were no longer necessary because the actual payments made to employees were lower than estimated.

We recorded restructuring and other items of $1,224 million in 2004. These consisted mainly of:

• a restructuring charge of $985 million related to approximately 5,000 employee departures under the employee departure program at Bell Canada

• a charge of $128 million recorded for cost overruns on a contract with the Government of Alberta (GOA), relating to the construction of the Alberta SuperNet

• a charge of $67 million relating to an employee departure program at Aliant

• other costs of $108 million, including future lease costs for facilities no longer needed, asset write-down and other provisions, net of a reversal of previously recorded restructuring charges that were no longer necessary because of the introduction of a new employee departure program.

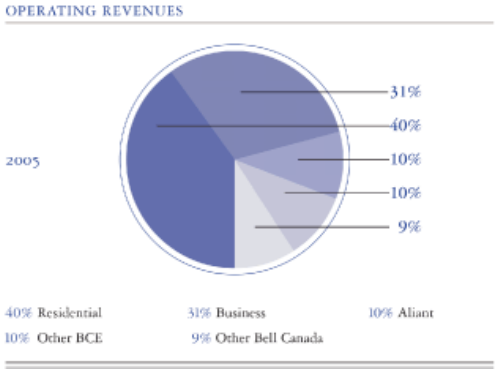
This was partly offset by income of $75 million recorded in the second quarter of 2004, relating to an agreement between BCE Inc. and MTS to settle lawsuits.

Net Earnings and Earnings per Share (EPS)

In 2005, net earnings applicable to common shares were $1,891 million, or $2.04 per common share, 24% higher than net earnings of $1,523 million, or $1.65 per common share, for 2004. Included in earnings this year was a net charge of $10 million from restructuring and other items and net gains on investments, compared with a net charge of $349 million for 2004. Net earnings before restructuring and other items and net gains on investments of $1,901 million, or $2.05 per common share, increased by $29 million, or $0.03 per share, year-over-year. This represents an increase of 1.5% over the previous year. The improvement in EPS before restructuring and other items and gains on investments can be attributed to higher EBITDA combined with the impact from the income tax loss monetization program between Bell Canada and BCI and net income tax savings. This more than offset the increase in net benefit plans cost and amortization expense.

In 2006, we anticipate that EPS will decrease, mainly as a result of the negative impact of an increase in net benefit plans cost, resulting from a reduction in the discount rate from 6.2% to 5.2% and an increase in amortization expense because of an increase in our capital asset base.

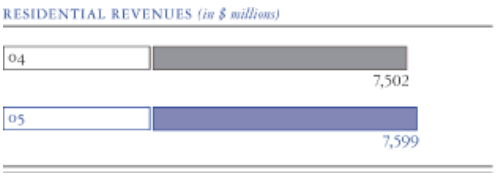
SEGMENTED ANALYSIS



	2005	2004	% CHANGE
Operating revenues			
Residential	**7,599**	7,502	1.3%
Business	**6,120**	5,851	4.6%
Aliant	**2,097**	2,033	3.1%
Other Bell Canada	**1,958**	1,939	1.0%
Inter-segment eliminations	**(524)**	(538)	2.6%
Bell Canada	**17,250**	16,787	2.8%
Other BCE	**2,093**	1,842	13.6%
Inter-segment eliminations	**(238)**	(261)	8.8%
Total operating revenues	**19,105**	18,368	4.0%
Operating income			
Residential	**2,001**	2,119	(5.6%)
Business	**910**	896	1.6%
Aliant	**396**	268	47.8%
Other Bell Canada	**448**	(588)	N/M
Bell Canada	**3,755**	2,695	39.3%
Other BCE	**293**	199	47.2%
Total operating income	**4,048**	2,894	39.9%

N/M: Not meaningful

Residential Segment



Residential revenues grew 1.3%, or $97 million, to $7,599 million in 2005, compared with 2004. Video, data, wireless and terminal sales and other revenues contributed 1.7%, 1.2%, 1.3% and 0.5%, respectively, to overall Residential revenue growth in 2005, offset largely by a negative contribution of 2.1% from long distance and 1.3% from local and access services. The increase was the result of continued expansion of our wireless, video and high-speed Internet subscriber bases and an increase in video ARPU, offset almost entirely by lower wireline (local and access and long distance) revenues brought about by an acceleration in NAS losses and continued wireless long distance prepaid and VoIP substitution, as well as ongoing price competition. Although overall Residential revenue growth slowed somewhat in 2005, this result was anticipated given increased competition from cable telephony and other alternative VoIP providers, which adversely affected wireline revenues.

Wireline

Local and access revenues, which represents the largest proportion of our Residential segment revenues, declined in 2005, due mainly to NAS erosion that resulted in lower basic service and related SmartTouch feature revenues, offset partly by an increase in wireline maintenance plan revenues reflecting price increases implemented during the year. NAS decreased in 2005 primarily as a result of losses to competitive local exchange carriers (CLECs) and cable operators, as well as to continued pressure from growth in high-speed Internet access that reduces the need for second telephone lines, while the impact from other alternative VoIP providers and customers substituting wireline with wireless telephone service was minimal. The rate of year-over-year NAS losses increased in 2005 as several major cable operators operating in our territory began to aggressively market their low-priced local telephony offerings in certain of our Ontario and Québec markets, where their footprints were established.

Long distance revenues decreased in 2005 compared with 2004 as a result of lower average revenue per minute (ARPM). Lower ARPM reflected increased competition from non-traditional long distance providers, the impact of our $5 Long Distance Bundle (which

was discontinued in July 2005) and Block-of-Time (BOT) minute plans, as well as a lower volume of higher priced overseas minutes. Overall minutes also declined year-over-year, as usage gains stemming from our bundle product were more than offset by losses of domestic and overseas minutes to alternative, non-traditional long distance service providers.

For further information about our wireline business, please see *Local and Access* and *Long Distance* within our *Product Line Analysis.*

Wireless

Residential wireless revenues increased in 2005, compared with 2004, as a result of a higher average number of customers compared with last year, price increases for certain services and features implemented earlier in the year, and increased adoption of data and other value-added feature services. Overall revenue growth was dampened by the loss of high-value customers in the early part of 2005 due to billing system conversion issues and a higher proportion of customers choosing prepaid service or postpaid monthly packages that include a large number of in-plan minutes and free unlimited local airtime usage for up to six months. In addition, revenue growth was negatively impacted by the billing and retention credits issued in Q1 2005 to compensate customers for billing errors and delays that occurred following implementation of our new billing platform in 2004. The issuance of customer credits returned to normal levels in Q2 2005.

For further information about our wireless business, please see *Wireless* within our *Product Line Analysis.*

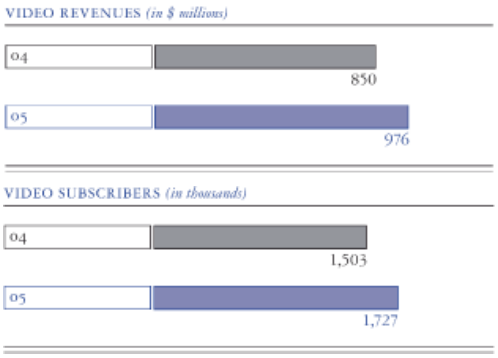
Data

Residential data revenues grew year-over-year, fuelled by growth of 21% in our high-speed Internet subscriber base and an almost two-fold increase in revenues from our Sympatico. MSN.ca web portal and Bell Sympatico VAS such as MSN Premium, Security Services and Home Networking. The portal currently averages 17.2 million unique visitors per month, or 87% of online Canadians.

Residential high-speed Internet subscriber growth in 2005 was driven by the introduction of our Basic Lite service in the Ontario market, as well as by footprint expansion, focused selling efforts and improved retention strategies. The introduction of lower priced high-speed services, such as our Basic Lite product, that are tailored to the very price-sensitive segments of the market, has expanded the overall high-speed market, stimulating high-speed service growth and accelerating the rate of erosion of dial-up Internet service.

For further information about our data business, please see *Data* within our *Product Line Analysis.*

Video



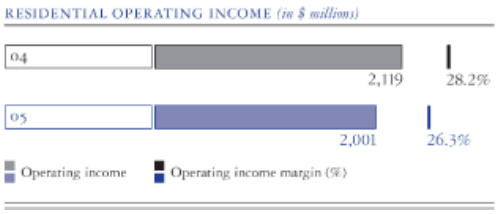
Our video revenues grew 14.8% in 2005 to $976 million from $850 million in 2004, as a result of an increase in the average number of subscribers, higher ARPU, reflecting the impact from price increases implemented during the year, and the success of our strategy to upsell customers to higher-priced programming packages. We had a strong year with the addition of 224,000 new net video customers, a 93% increase compared with the 116,000 net activations achieved in 2004. Our total video customer base reached 1,727,000 at December 31, 2005, representing an increase of 14.9% compared with the previous year. The significant growth in net activations for 2005 can be attributed to the positive impact of our STB rental program, which accounted for nearly half of our new activations in the year, the attractiveness of our programming packages, and the addition of 12,500 new subscribers from our acquisition of Cable VDN in the third quarter. In addition, several initiatives focused on churn management contributed to overall subscriber growth. Churn for the year improved by 0.1 percentage points to 0.9% compared with 2004, reflecting the continued success of our multi-product household strategy and the requirement that, as of August 1, 2004, all new video customers have contracts. This result was achieved despite implementation of a card swap program completed in July 2005 and aggressive

price competition, particularly in the latter half of the year, from the cable operators' strategy of bundling cable television service with other products.

Video ARPU increased to $50 per month in 2005 from $49 per month in the previous year. The improvement was the result of price increases implemented during the year and a shift in product mix towards higher priced programming packages, offset partly by bundle and retention discounts. In March 2005, we applied a $3 rate increase to our existing subscriber base and on October 1, 2005, we brought into effect $2 and $3 increases, respectively, on our basic and theme packages for all new customers.

In 2006, growth in video revenues is expected to continue, driven by ongoing expansion of the subscriber base and further improvement in ARPU brought about by the price increases introduced during 2005. We will leverage our video service as part of our Residential segment's overall multi-product household strategy, allowing us to maximize the profitability of our traditional local voice services, while increasing penetration of our growth services, by securing a loyal customer base that is less vulnerable to cable telephony. We also intend to continue investing in our IPTV platform in preparation for launch of service in the future and to further develop our highdefinition capabilities, ensuring that we have the right services in the future to be the video provider of choice for consumers in both urban and rural markets.

Residential Operating Income



Residential segment operating income decreased 5.6%, or $118 million, to $2,001 million in 2005, compared with 2004. This decrease was due to a higher rate of decline in our high-margin residential NAS wireline customer base, higher expected acquisition costs from stronger year-over-year wireless subscriber growth, higher marketing costs related to an increased level of wireless advertising and sales activity, as well as higher amortization expense and increased net benefit plans cost. These factors were partially offset by higher revenues and cost savings associated with certain Galileo initiatives, including our One Bill rollout, the launch of our new Bell.ca website and improved call centre efficiencies.

By the end of 2005, we began to see a marked decrease in contact centre costs driven by an improvement in the first-call resolution rate and outsourcing. This, along with revenue growth from continued strength in our wireless, Internet access and video businesses, is expected to mitigate the continued erosion in our local and access and long distance services in 2006, which should experience heightened competition as cable operators intensify their marketing efforts and further expand the footprint for their low-priced cable telephony offerings in our incumbent territories.

Business Segment



Business segment revenues increased by 4.6% in 2005 to reach $6,120 million, compared with $5,851 million in the previous year. Our SMB and Enterprise units contributed 2.7% and 1.8% of the total growth in Business segment revenues, respectively, while our other business units (comprised of Bell West and 360networks) contributed 0.1%. From a product line perspective, increases in data and wireless revenues at our Enterprise and SMB units were partially offset by declines in long distance and local and access revenues, resulting from further legacy erosion as competitive pressures intensified and as customers continued to migrate their voice and data traffic to our IP-based systems. In addition, lower data revenues at Bell West in 2005, due to revenues received in 2004 from the GOA for the construction of the Alberta SuperNet, dampened the overall Business segment revenues for the year. The results for 2005 also include the contribution to revenues from the acquisition of 360 networks in November 2004, which increased our customer base and gave us an extensive fibre network across major cities in Western Canada.

Enterprise

Enterprise revenues increased in 2005, compared with 2004, mainly as a result of strong wireless performance driven by solid growth in the number of higher-value wireless subscribers and higher data revenues. Data contributed significantly to the year-over-year revenue improvement, due to solid growth in IP-based connectivity services and ICT solutions, as well as the proceeds from the sale of customer contracts related to legacy point-of-sales systems. ICT revenues grew by 36% in 2005 as a result of acquisitions, organic growth and outsourcing contracts. Data revenue growth was more organic in 2005 than in 2004, as we have realized the full-year benefit of acquisitions made in 2004, including Infostream Technologies Inc. and Elix Inc. Declines in long distance and local and access revenues partially offset the increases in data and wireless revenues, due to erosion of our legacy voice and data business, the repricing of some of our existing wireline business brought about by competitive market conditions, and the continued migration of our customers' voice and data traffic to IP-based systems.

In 2005, we continued to broaden our ICT solutions product suite through the acquisition of a number of small, specialized service companies, including:

• CDG, Inc., a Canadian provider of anti-virus and anti-spam solutions, which should provide a strong presence in Western Canada

• PopWare Inc., a systems integrator providing inventory and asset management solutions, which expands our wireless solutions portfolio

• The Createch Group, a Québec-based professional services firm specializing in business process optimization and IT integration, which consolidates our existing suite of wireless data solutions

• end2end Software Corp., a developer of workflow solutions for the capital markets sector.

Our Enterprise unit also had a number of significant multi-year contract wins during the year, including:

• National Bank of Canada, to provide integrated call centre solutions and telephone services

• Aéroports de Montréal, to provide a fully-integrated end-to-end communications services solution consisting of standard telecom services, IP telephony, WiFi coverage and digital signage

• Canadian Imperial Bank of Commerce, to provide and manage DSL and IP virtual private network (IP-VPN) services for its remote automated bank machine (ABM) network

• RBC Financial Group, Canada's largest financial institution, to implement a fully managed IP solution, converting approximately 8,400 of the bank's phone lines at its head office in Toronto to VoIP.

SMB

The SMB unit delivered its best year since the launch of its VCIO strategy in 2003, contributing significantly to the solid financial performance of our Business segment in 2005. Revenues generated from SMB customers increased in 2005 as higher data and wireless revenues more than compensated for the decreases in long distance and local and access revenues. Despite a highly competitive market environment, data revenue growth in 2005 was driven by the continued strong adoption of our VCIO strategy and cross-selling opportunities with companies acquired in 2005 (including Nexxlink Technologies Inc. and CSB Systems, which form a part of Bell Business Solutions Inc.). This resulted in higher VAS and equipment sales year-over-year, which grew organically by 48% in the year, as well as an increase in the number of high-speed Internet access service connections. Long distance revenues decreased, due mainly to the combined impact of lower volumes and competitive pricing pressures, and a weakening of our pay-phone business that is directly attributable to wireless and Internet substitution. Similarly, local and access revenues were also lower due to pressure from our declining pay-phone business, NAS losses to alternative telephony providers and lower wireline access installation fees resulting from reduced order activity.

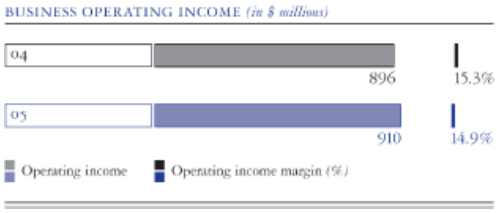
Bell West

Bell West continued to grow its Enterprise and SMB customer bases during 2005, leading to increases in revenues in most product categories. These increases were more than offset by a year-over-year decrease in data revenues. The results for 2004 reflected higher data revenues earned from the construction of the Alberta SuperNet.

During 2005, Bell West began to integrate the operations of 360networks, which was acquired in November 2004. Through this acquisition, Bell West increased its customer base while gaining access to an extensive fibre network with facilities across major cities in Western Canada.

In June 2005, Bell Canada and the GOA entered into a new agreement that replaced the initial contract for construction and operation of the Alberta SuperNet entered into in 2001. The Alberta SuperNet, which provides high-speed Internet and broadband capabilities, is comprised of a Base Area Network (BAN), covering 27 of Alberta's largest communities, and the Extended Area Network (EAN), reaching 429 communities in rural Alberta. Under the terms of the new agreement, Bell Canada assumed ownership of the EAN and provides access to the GOA under indefeasible right-of-use agreements. In conjunction with this agreement, Bell Canada also entered into a new revenue-sharing agreement with the GOA and Axia NetMedia Corporation, the access manager for the Alberta SuperNet. Construction of the Alberta SuperNet was completed on September 30, 2005. Following service acceptance by the GOA in the fourth quarter, the Alberta SuperNet began generating revenues from the sale of telecom services.

Business Operating Income



Business segment operating income grew 1.6%, or $14 million, to $910 million in 2005, compared with 2004, due mainly to a year-over-year increase in revenues and cost savings from our Galileo initiatives. These positive impacts were mitigated by continued margin pressure due to a competitive market pricing environment, the loss of higher-margin legacy voice and data business, and the ongoing shift of voice and data traffic to lower-margin IP-based growth services, as well as higher net benefit plans cost and amortization expense.

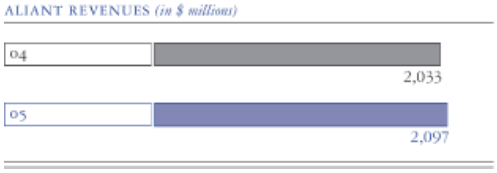
In the Enterprise unit, operating income increased in 2005 due to solid revenue growth and focused cost management, despite the negative margin impact from steady progress in transforming our product mix towards growth services as well as higher amortization expense and net benefit plans cost.

Similarly, SMB operating income growth in 2005 was driven by strong revenue performance and Galileo savings, partly offset by higher operating expenses stemming from recent business acquisitions, margin erosion related to the shift from legacy voice and data services to VCIO revenues, as well as by higher net benefit plans cost and amortization expense.

Bell West recorded lower operating income in 2005, due primarily to higher revenues earned in 2004 for the construction of the Alberta SuperNet and higher amortization expense, offset partly by lower cost of goods sold.

Our transformation strategy will continue in 2006 as our core network evolves to enable new IP-based services and as we transform operations and achieve greater efficiencies to create a next-generation cost structure for our business. Our Business segment growth strategy will continue to be developed around the objectives of serving the Enterprise market in key ICT vertical markets such as health care, government and financial services, and continuing to raise awareness among our SMB customers about the benefits of ICT solutions delivered through a single point-of-contact. In 2006, we expect Business segment revenues will grow, driven by organic growth in IP-based connectivity service and ICT revenues, further traction of our VCIO strategy in SMB, the positive contribution of business acquisitions made in 2005, continued solid wireless performance, and increased sales of services from the Alberta SuperNet. However, continued declines from our legacy voice and data services are expected to offset the growth in revenues.

Aliant



Aliant segment revenues increased 3.1%, or $64 million, to $2,097 million in 2005, compared with 2004. Strong growth in wireless and Internet services, as well as a recovery from the 2004 labour disruption, offset declines in other areas due to the effects of competition, wireless and Internet substitution, and regulatory restrictions.

Aliant's wireless revenue grew in 2005, driven by an 11.9% increase in its wireless customer base and higher ARPU. Subscriber results included a 23% increase in digital customers, reflecting Aliant's expanded coverage area and digital wireless network, an enhanced dealer network that improved market penetration, and a broader product selection. In addition, ARPU increased in the year, reflecting the effects of a higher percentage of customers subscribing to digital service and an increase in average minutes of use.

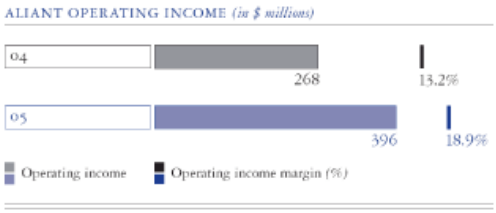
Data revenues increased slightly in 2005, as higher Internet revenues and recovery from the 2004 labour disruption were offset almost entirely by other data revenue declines from the continued rationalization of circuit networks by customers, and the $8 million negative impact of the CRTC's CDN decision. The increase in Internet revenues was attributable mainly to 42% growth in Aliant's high-speed Internet customer base. The increased number of subscribers reflected expansion of high-speed Internet service into new areas, the migration of dial-up customers to higher-speed products, successful marketing programs and an emphasis on bundling Internet service with other products.

Long distance revenues declined in 2005, due to lower per-minute pricing and a decline in minutes of use stemming from intense competition, substitution of long distance calling with Internet and wireless options, and the use of contact centre management tools (such as integrated voice response systems) that reduce the duration of calls.

Local and access revenues continued to decrease in 2005, due mainly to a 1.5% decline in the NAS customer base, which reflected losses to the competition and technology substitution. In addition, the CRTC's regulatory restrictions continue to place pressure on Aliant's local and access business with respect to bundling and packaging of local services with other non-regulated services, and limitations imposed with respect to customer win-back promotions. Enhanced service features revenue also declined as a higher number of customers received bundling discounts.

Terminal sales and other revenues increased in 2005, as a result of higher product sales reflecting Aliant's recovery from its 2004 labour disruption.

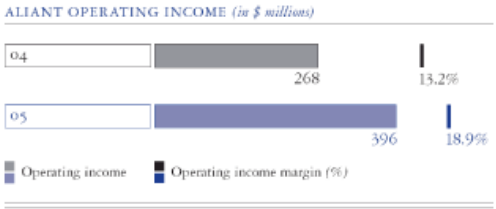
Aliant Operating Income



Aliant's operating income increased 48%, or $128 million, to $396 million in 2005, compared with 2004. The full impact of revenue growth and recovery from the 2004 labour disruption, as well as the non-recurrence in 2005 of a $67 million restructuring charge related to the voluntary early retirement program in December 2004, was offset partly by the impact of the CRTC's CDN decision and an increase in net benefit plans cost. Operating expense increases required to drive revenue growth in 2005 were contained by expense management and the cost savings from Aliant's 2004 voluntary early retirement program. Approximately $42 million of incremental costs were incurred during the 2004 labour disruption to enable operations to continue with relatively few interruptions, ensure the safety of employees, perform property repairs, provide training and equipment to employees and maintain basic customer service.

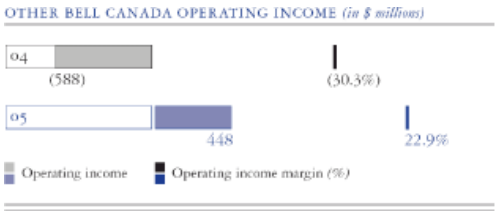
In 2006, Aliant expects revenue growth from its high-speed Internet and digital wireless services, as well as increased ICT market penetration in Atlantic Canada and adjacent areas to offset expected steady, but slower, declines in local and access and long distance revenues. Aliant also anticipates higher operating income in 2006 from continued revenue growth and through productivity improvements. These positive impacts are expected to be offset partly by increased costs associated with Aliant's growth services and higher net benefit plans cost.

Other Bell Canada Segment



Other Bell Canada segment revenues grew 1.0%, or $19 million, to $1,958 million in 2005, compared with 2004. The year-over-year increase was due mainly to higher revenues at our Wholesale unit, resulting from the acquisition of the wholesale business of 360networks in November 2004, fibre and access capacity sales in the third quarter of 2005, the early termination of a cross-border facilities contract in the second quarter of 2005 and a favourable ruling by the CRTC with respect to subsidies for serving high-cost areas at Télébec in the first quarter of 2005. A contract secured in late 2005 to restore telecommunications service to the areas affected in the United States by Hurricane Katrina also contributed to the improvement in Other Bell Canada revenues in 2005. These positive impacts were offset partly by the impact of the CRTC's CDN decision, which reduced revenues by $55 million in 2005, continued pressure on long distance revenues stemming from a decrease in switched minute volumes and competitive pricing, and lower data revenues as customers migrated services onto their own network facilities.

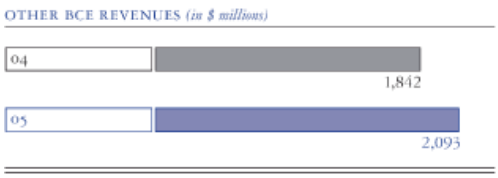
Other Bell Canada Operating Income



The Other Bell Canada segment generated operating income of $448 million in 2005, a $1,036 million increase when compared to an operating loss of $588 million in 2004. The amount reported for 2004 included restructuring and other items of $1,147 million, mainly associated with our employee departure program and the related relocation of employees and closure of excess real estate facilities, whereas the amount reported in 2005 for restructuring and other charges was $53 million. Excluding restructuring and other items, operating income decreased 10.4% to $501 million in 2005, reflecting the impact of the CRTC's CDN decision, higher operating costs from the acquisition of 360networks, and the repricing of long distance and data services in our Wholesale business. Higher revenues and lower bad debts expense partly offset the negative impacts on operating income.

Other BCE Segment

	2005	2004	% CHANGE
Operating revenues			
Bell Globemedia	**1,555**	1,420	9.5%
Telesat	**475**	362	31.2%
Other	**63**	60	5.0%
Other BCE revenues	**2,093**	1,842	13.6%



Other BCE segment revenues grew 13.6%, or $251 million, to $2,093 million in 2005, compared with 2004, reflecting higher revenues mainly at Bell Globemedia and Telesat.

Bell Globemedia's revenues increased 9.5%, or $135 million, to $1,555 million in 2005, compared with 2004. Total advertising revenues grew by 10.3% in 2005, reflecting the strength of CTV Television's schedule, which included the majority of the top 20 regularly scheduled programs in each season among all viewers, and higher employment and classified advertising sales at *The Globe and Mail.* Strong growth in advertising revenues in conventional and specialty television other than sports helped to offset the loss of advertising from hockey broadcasts (due to the NHL players' lockout, which ended in the third quarter) on our sports specialty channels TSN and RDS for the first three quarters of the year. Bell Globemedia's subscriber revenues grew by 7.4% in 2005, due primarily to specialty channel subscription growth, online subscription growth at *The Globe and Mail,* as well as a larger number of subscribers to *The Globe and Mail* in combination with an increase in the home delivery rate for the newspaper implemented at the beginning of the year.

Telesat's revenues increased 31%, or $113 million, to $475 million in 2005, compared with the previous year, primarily as a result of revenue gains from the installation and maintenance of an interactive distance learning network, growth in Ka-band revenues on its Anik F2 satellite, the positive impact from its acquisition of SpaceConnection, and higher overall broadcast revenues.

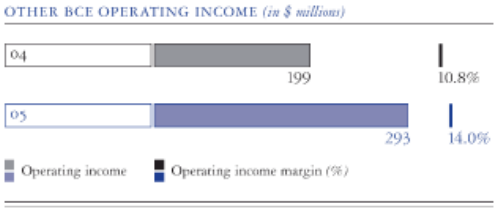
SpaceConnection was acquired in January 2005 and is a provider of programming-related satellite transmission services to major U.S. television networks and cable programmers.

Anik F2 began commercial service in October 2004 and was the world's first satellite to commercialize the Ka frequency band, enabling two-way high-speed Internet access services to consumers and businesses in Canada and the United States. In May 2005, Telesat launched its new two-way high-speed Internet access service using the Ka band of Anik F2. This service is available to consumers through multiple distributors across Canada, including Barrett Xplore Inc., a wireless broadband service provider, Télébec, NorthernTel and Infosat Communications Inc.

On October 1, 2005, Telesat's new Anik F1R satellite was placed into service and began providing capacity for broadcasters, home satellite television services and telecommunications.

On January 17, 2006, Telesat announced plans to build and launch Nimiq 4, a new direct broadcast satellite that will carry a wide range of digital television services and enable Bell ExpressVu to enhance advanced services such as HD television, specialty channels and foreign language programming.

Other BCE Operating Income

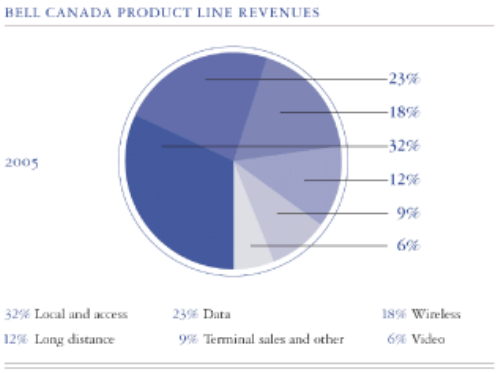


Operating income for the Other BCE segment grew 47%, or $94 million, to $293 million in 2005, due mainly to higher operating income at both Bell Globemedia and Telesat.

Bell Globemedia's operating income increased 20%, or $49 million, to $289 million in 2005, reflecting revenue gains and lower sports specialty programming costs due to the NHL lockout for most of the year. This was offset partly by higher conventional television programming costs, increased sales and circulation costs at *The Globe and Mail* and higher net benefit plans cost.

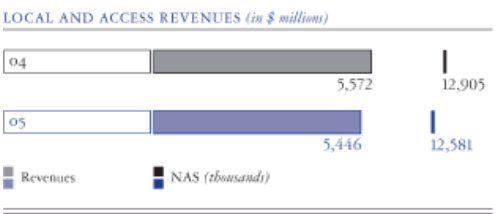
Telesat's operating income grew by 11.3%, or $16 million, to $157 million in 2005, reflecting higher revenues, offset partly by higher operating expenses from SpaceConnection, network equipment costs for interactive distance learning services, as well as higher amortization expense stemming from its newest satellites (Anik F2 and Anik F1R) and from the acquisition of SpaceConnection.

PRODUCT LINE ANALYSIS



REVENUES	2005	2004	% CHANGE
Local and access	**5,446**	5,572	(2.3%)
Long distance	**2,044**	2,327	(12.2%)
Wireless	**3,097**	2,818	9.9%
Data	**4,015**	3,640	10.3%
Video	**976**	850	14.8%
Terminal sales and other	**1,672**	1,580	5.8%
Total Bell Canada	**17,250**	16,787	2.8%

Local and Access



Local and access revenues decreased 2.3%, or $126 million, to $5,446 million, compared with 2004. The year-over-year decline was a result of accelerating NAS erosion and lower Smart-Touch feature revenues directly attributable to NAS losses, offset partly by gains from wireline

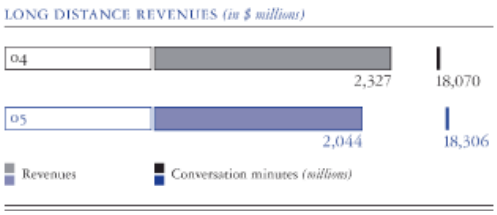
insurance and maintenance plans.

NAS in service declined by 324,000 in 2005 or 2.5%, as a result of competition from cable operators for local telephone service, losses to CLECs and other VoIP providers, wireline to wireless substitution, as well as continued pressure from growth in high-speed Internet access that reduces the need for second telephone lines. This decrease in 2005 reflected a higher level of NAS losses than the previous year, as several major cable operators in our incumbent territories increased their marketing efforts and expanded the footprint of their low-priced local telephony offerings in certain of our Ontario and Québec markets. This was offset partly by customers subscribing to our new Bell Digital Voice service and higher demand for local access lines from Shaw Communications to offer VoIP services in Western Canada.

Moreover, the CRTC's regulatory restrictions continue to place pressure on our local and access business with respect to bundling and packaging of local services with other non-regulated services, as well as limitations on customer win-back promotions.

In 2006, we expect that wireline competition in both the Residential and Business markets will increase further, primarily as a result of cable telephony and decreases in legacy services pricing. Accordingly, we estimate that our overall NAS in service will continue to decrease in 2006, reflecting a significantly higher rate of decline in our Residential segment.

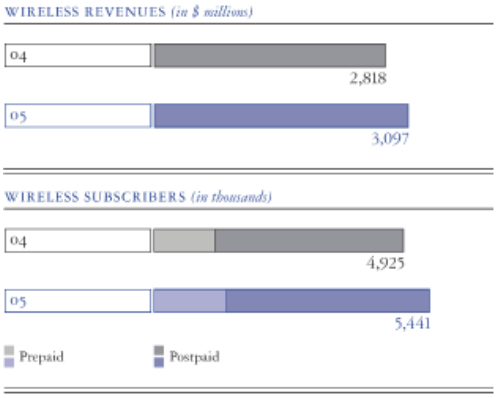
Long Distance



Long distance revenues were $2,044 million in 2005, reflecting a year-over-year decrease of 12.2% compared with 2004. Lower long distance revenues affected all Bell Canada segments, particularly our Residential and Business segments. Overall minute volumes increased 1.3% in 2005 to 18,306 million conversation minutes, compared with 2004. However, ARPM decreased by $0.015 during the year to reach $0.102, reflecting competitive pricing pressures in our Residential, Business and Wholesale markets and the pricing impact from subscriptions to the $5 Long Distance Bundle in our Residential segment (which we stopped offering in July 2005).

We anticipate continued pressure on long distance revenues in 2006, due to intensifying competition in our Residential markets from cable companies that are offering VoIP residential telephone service, wireless substitution and other factors including e-mail and instant messaging substitution, as well as continuing competitive pricing conditions in the Enterprise and Wholesale markets.

Wireless



Gross wireless activations increased by 20% in 2005 to a record 1,470,000, up from 1,225,000 in the previous year. Although the percentage of total gross activations from postpaid rate plans decreased to 70% in 2005 from 75% in 2004, due primarily to the impact of Solo Mobile and Virgin Mobile on prepaid subscriber growth, the total number of gross postpaid activations increased by 11.9% to 1,024,000. Prepaid gross activations comprised the remaining 446,000 gross activations, representing a 44% increase compared with 2004. Postpaid growth was stimulated by our attractive line-up of leading-edge handsets and devices, innovative services such as 10-4 and EVDO, competitive rate-plan promotions, our growing presence in Western Canada, as well as our continued success with the business market segments. The significantly higher number of prepaid activations was fuelled by the introduction of two new brands tailored for the youth market, Solo Mobile and Virgin Mobile.

Our postpaid churn rate increased to 1.4% in 2005 from 1.1% in 2004, due mainly to increased competitive pressures, the reaction to price increases introduced during the year for certain services and features, the enforcement of tighter policies on the application of customer credits and discounts and to the granting of hardware upgrades, as well as some residual impacts from our billing system migration that caused dissatisfaction among certain of our customers who deferred service deactivation until expiry of their contracts. Prepaid churn for 2005 was unchanged at 1.9% year-over-year, reflecting the effectiveness of our retention initiatives with respect to inactive customers. Accordingly, as a result of higher postpaid churn, our blended churn rate for 2005 increased to 1.6%, compared with 1.3% in 2004.

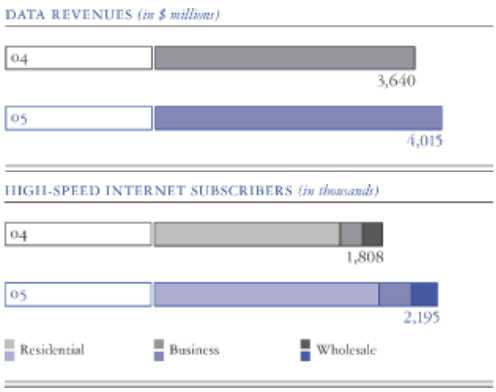
As a result of a record number of gross activations in 2005 and despite an increase in our overall churn rate for the year, we added 516,000 new net activations in 2005, representing a slightly higher number than the 513,000 achieved in 2004. At December 31, 2005, our cellular and PCS subscriber base totalled 5,441,000, representing a 10.5% increase. Postpaid rate plans accounted for 74% of our total subscriber base at the end of 2005, compared with 76% at the end of the previous year.

Wireless service revenues grew 9.9%, or $279 million, to $3,097 million in 2005, compared with 2004, reflecting a higher average number of customers in our subscriber base and stable ARPU performance.

Postpaid ARPU remained stable year-over-year at $61 per month. The positive impact of higher value-added service and data revenues, increased penetration of Blackberry customers and other heavy users subscribing to higher-priced rate plans, as well as price increases implemented during the year for certain features including 911, 411, outbound text messaging, and out-of-bundle minutes were fully offset by lower out-of-bundle airtime usage, resulting from the popularity of price plans offering a large number of bundled minutes or an unlimited local usage option, and the application of customer billing and retention credits in the early part of the year stemming from the residual impact of the billing system migration in 2004. Prepaid ARPU increased to $14 per month in 2005, compared with $12 per month in 2004, due mainly to the addition of Solo and Virgin Mobile customers, who generate a higher than average ARPU, to our prepaid subscriber base and to higher overall usage. Blended ARPU remained unchanged in 2005 at $49 per month, compared with 2004, despite a slight year-over-year decrease in the percentage of total subscribers on postpaid rate plans.

We continue to see considerable opportunities for growth in the wireless market for 2006, given that Canadian wireless penetration is significantly lower than the levels achieved in other countries, such as the United States, where the penetration rate at the end of 2005 was approximately 65% compared to an estimated 52% in Canada. We expect our wireless revenues to increase as a result of anticipated higher ARPU and the continued expansion of our subscriber base in 2006. We anticipate that attracting higher-value subscribers with innovative features and applications, increased take-up rates for data bundles, the introduction of new rate plans to stimulate usage and encourage customer migration to higher-priced packages, selective price increases for some value-added services, as well as increased usage of wireless data services such as text and picture messaging and Web browsing should stimulate ARPU growth.

Data



Data revenues increased 10.3%, or $375 million, to $4,015 million in 2005, compared with 2004. The improvement was a result of growth in high-speed Internet access services, increased penetration of IP-based connectivity and ICT solutions within our Enterprise and SMB business units, including revenues related to business acquisitions in 2005, which more than offset the negative effects of a decrease in legacy data revenues due to competitive pricing, lower

demand and the continued rationalization of circuit networks by wholesale customers, lower construction revenues from the GOA contract and the CRTC's CDN decision, which adversely affected data revenues by $63 million in 2005. Data revenues in 2005 also reflected the favourable impact of the sale of customer contracts and fibre and access capacity in our Enterprise and Wholesale units, as well as a one-time benefit from the early termination of a cross-border facilities contract.

The number of high-speed Internet subscribers increased by 387,000 in 2005, 10.6% higher than the 350,000 net new connections activated in 2004, bringing the total subscriber count at the end of 2005 to 2,195,000. Subscriber growth in the year was driven largely by the introduction of our Basic Lite product in the Ontario market, higher net additions at Aliant and in our SMB unit, as well as by footprint expansion, focused selling efforts and improved customer retention. The introduction of lower-priced high-speed services such as Basic Lite that are tailored to the very price-sensitive segments of the market, has expanded the overall high-speed market, stimulating high-speed service growth and accelerating the rate of erosion of dial-up Internet service. Total dial-up customers decreased to 586,000 at the end of 2005 from 743,000 at the end of 2004. Our high-speed Internet access footprint in Ontario and Québec reached 85% of homes and business lines passed at the end of 2005, compared with 83% at the end of the previous year.

In 2006, we expect further revenue erosion in our legacy data services from competitive pricing pressures and continued customer migration to IP-based networks, offset by anticipated high-speed Internet subscriber base growth, increased penetration of value-added solutions, as well as the positive impact of acquisitions and select price increases for certain Internet services. We also expect our Residential segment to experience slower high-speed Internet subscriber growth due to sustained aggressive price competition in both our Ontario and Québec markets arising from cable operators' increased emphasis on selling multi-product bundles at discounted rates.

Video

See discussion under Residential segment.

Terminal Sales and Other



Terminal sales and other revenues increased 5.8%, or $92 million, to $1,672 million in 2005, compared with 2004. The year-over-year improvement reflected higher wireless equipment revenues resulting from an increased volume of devices sold, higher product sales at Aliant reflecting its recovery from a labour disruption in 2004, the favourable impact from several acquisitions (including those of 360 networks and Entourage), as well as incremental revenue from a contract secured by Expertech Network Installation Inc. (a Bell Canada majority-owned provider of installation and network infrastructure services) to help restore telecommunications service to the areas affected in the United States by Hurricane Katrina. This was offset partly by lower legacy voice equipment sales to business customers.

OTHER ITEMS

Other Income

Other income decreased $399 million to $8 million in 2005, a decrease of 98% from 2004. This was mainly from:

- net gains on investments in 2004 of $217 million from the sale of our 15.96% interest in MTS and $108 million from the sale of Bell Canada's remaining 3.24% interest in YPG General Partner Inc. (YPG)
- a charge of $33 million relating to the tax loss monetization program between Bell Canada and BCI (see *Related Party Transaction)*
- a decrease of $35 million in income from cost and equity investments mainly due to the sale of our 15.96% interest in MTS
- a $7 million write-down of Bell Globemedia's investment in TQS Inc.

Other Income

Other income includes income that we receive from activities that are not part of our business operations, such as:

- net gains on investments, including gains or losses when we dispose of, write down or reduce our ownership in investments
- foreign currency gains (losses)
- interest income on cash and cash equivalents
- equity in net earnings (losses) from companies over which we exert significant influence
- other miscellaneous income or expense.

Non-Controlling Interest

The non-controlling interest in the statements of operation reflects the percentage of a subsidiary that we do not own multiplied by the amount of the subsidiary's after-tax earnings.

Financial and Capital Management

This section tells you how we manage our cash and capital resources to carry out our strategy and deliver financial results. It provides an analysis of our financial condition, cash flows and liquidity on a consolidated basis.

Capital Structure

Our capital structure shows how much of our net assets are financed by debt and equity.

Net debt to capitalization ratio is a key measure we use to assess our financial condition. It shows how much net debt (debt due within one year and long-term debt, net of cash) we have in relation to our capitalization (total net debt, non-controlling interest and shareholders' equity).

This decrease was partly offset by a dilution gain of $39 million in the second quarter in our interest in TerreStar Networks Inc., a mobile satellite services company.

Interest Expense

Interest expense declined $18 million to $981 million in 2005, a decrease of 1.8% from 2004. This was a result of lower average interest rates from the refinancing of debt at lower rates.

Income Taxes

Income taxes increased $212 million to $893 million in 2005, an increase of 31% over 2004. This was mainly from:

• higher pre-tax earnings

• tax savings realized in 2004 on the $325 million of gains on the sale of our interests in MTS and YPG because of the available capital loss carryforwards.

This increase was partly offset by:

• restructuring charges of $45 million that were not tax-effected in 2004

• savings of $99 million resulting from the tax loss monetization program between Bell Canada and BCI (see *Related Party Transaction)*.

As a result, the effective tax rate decreased slightly from 29.6% in 2004 to 29.0% in 2005.

Non-Controlling Interest

Non-controlling interest increased $93 million to $267 million in 2005, an increase of 53% over 2004. This was from:

• higher net earnings at Aliant and Bell Globemedia

• a higher net loss at Bell West in 2004, due to cost overruns on the GOA contract that were recorded in 2004, since MTS owned a 40% interest in Bell West until August 2004.

Discontinued Operations

The net gain from discontinued operations of $46 million in 2005 relates to our proportionate share of CGI's operating gains.

The net gain from discontinued operations of $77 million in 2004 consisted of:

• a net gain of $23 million from discontinued operations of Emergis

• our proportionate share of CGI's operating gains of $54 million.

Extraordinary Gain

In the fourth quarter of 2004, we purchased the Canadian operations of 360 networks for $293 million in cash. The fair value of the net assets acquired exceeded the purchase price by approximately $227 million. For accounting purposes, the excess was eliminated by:

• reducing the amounts assigned to the acquired non-monetary assets (e.g., capital and intangible assets) to zero

• recognizing the balance of $69 million as an extraordinary gain.

FINANCIAL AND CAPITAL MANAGEMENT

CAPITAL STRUCTURE

AT DECEMBER 31	**2005**	2004
Debt due within one year	**1,373**	1,272
Long-term debt	**12,119**	11,685
Less: Cash and cash equivalents	**(363)**	(313)
Total net debt	**13,129**	12,644
Non-controlling interest	**2,898**	2,908
Total shareholders' equity	**14,721**	14,024
Total capitalization	**30,748**	29,576

Net debt to capitalization ratio	**42.7%**	42.8%

Outstanding share data (in millions)		
Common shares	**927.3**	925.9
Stock options	**27.3**	28.5



Our net debt to capitalization ratio was 42.7% at the end of 2005, compared to 42.8% at the end of 2004. This was a result of an increase in total shareholders' equity, partly offset by higher net debt.

Net debt increased $485 million to $13,129 million in 2005. This was mainly due to:

• obligations of $452 million for capital leases relating to several lease financing arrangements

• cash of $461 million invested in business acquisitions and other investments

• redemption of common shares of $78 million from non-controlling interest.

This increase was partly offset by free cash flow of $662 million.

Total shareholders' equity increased $697 million to $14,721 million in 2005. This was mainly the result of the net earnings remaining after the dividends we declared on common and preferred shares in 2005.

OUTSTANDING SHARE DATA

We had 927.3 million common shares outstanding at the end of 2005, an increase of 1.4 million over 2004 resulting from stock options that were exercised in 2005.

The number of stock options outstanding at the end of 2005 was 27.3 million, a decrease of 1.2 million from 2004. The weighted average exercise price of the stock options outstanding at December 31, 2005 was $32. Of the total outstanding stock options at December 31, 2005, 16.5 million were exercisable at a weighted average exercise price of $34. In 2005:

• 1.5 million stock options were granted

• 1.4 million previously granted options were exercised

• 1.2 million previously granted options expired or were forfeited.

Starting in 2004, most of the stock options granted contain specific performance targets that must be met before the option can be exercised.

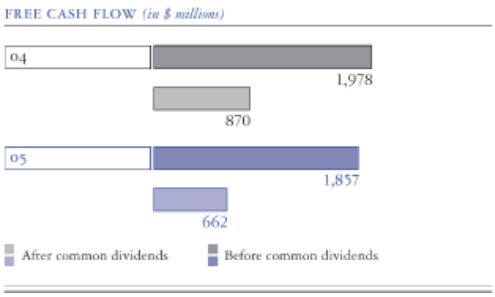
CHANGES TO CAPITAL STRUCTURE

On February 1, 2006, we announced the intended use of our proceeds from the sale of our investments in Bell Globemedia and CGI, which consists mainly of:

• $1.3 billion for the repurchase of 5% of BCE Inc.'s outstanding common shares through a NCIB

• $1.0 billion for debt reduction.

CASH FLOWS



The table below is a summary of the flow of cash into and out of BCE in 2005 and 2004.

	2005	2004
Cash flows from operating activities	**5,559**	5,443
Capital expenditures	**(3,428)**	(3,319)
Other investing activities	**4**	127
Cash dividends paid on common shares	**(1,195)**	(1,108)
Cash dividends paid on preferred shares	**(86)**	(85)
Cash dividends paid by subsidiaries to non-controlling interest	**(192)**	(188)
Free cash flow	**662**	870
Business acquisitions	**(228)**	(1,118)
Business dispositions	**—**	20
Increase in investments	**(233)**	(58)
Decrease in investments	**19**	713
Net issuance of equity instruments	**25**	32
Net repayment of debt instruments	**(54)**	(820)
Financing activities of subsidiaries with third parties	**(77)**	(50)
Other financing activities	**(64)**	(81)
Cash provided by discontinued operations	**15**	150
Net increase (decrease) in cash and cash equivalents	**65**	(342)

Cash from Operating Activities

Cash from operating activities increased $116 million to $5,559 million in 2005, an increase of 2.1% from 2004. This was a result of:

• an improvement in cash earnings resulting from higher EBITDA

• a significant improvement in the collection of accounts receivable once issues associated with the implementation of our new billing platform for wireless customers in 2004 were resolved

• an increase of $134 million in proceeds from the sale of accounts receivable

• a decrease of $77 million in payments relating to the restructuring initiatives of 2004 and 2005.

This increase was partly offset by:

• higher pension and other benefit plan payments, mainly at Aliant

• an increase of $73 million in income taxes paid, primarily related to the final instalment for 2004 made in 2005 as instalments were not required at Bell Canada in 2004

• a $75 million settlement payment received from MTS in 2004.

Free Cash Flow

Our free cash flow was $662 million in 2005, down from $870 million in 2004. This was mainly due to:

• a decrease of $149 million in insurance proceeds received by Telesat

• an increase of $109 million in capital expenditures related to our investment in platforms for next-generation services

• an increase of $87 million for common dividends paid resulting from the quarterly increase of $0.03 per common share.

This decrease was partly offset by a $116 million increase in cash from operating activities.

We are targeting positive free cash flow in 2006 to be generated mainly from recurring sources.

Capital Expenditures

We continue to make investments to expand and update our networks and to meet customer demand for new services. Capital expenditures were $3,428 million in 2005, which was 3.3% higher than 2004 capital expenditures of $3,319 million. Bell Canada's capital expenditures were $3,122 million in 2005, which was 3.2% higher than 2004 capital expenditures of $3,026 million. As a percentage of revenues:

• our capital expenditures decreased slightly from 18.1% in 2004 to 17.9% in 2005

• Bell Canada's capital expenditures increased slightly from 18.0% in 2004 to 18.1% in 2005.

Our capital spending in 2005 reflected an increasing investment in the growth areas of the business and reduced spending in legacy areas. Our key strategic investments this year included:

• expanding our FTTN footprint

• launching our Bell Digital Voice service

• implementing an EVDO wireless data network

• expanding our DSL footprint

• investing in our IPTV platform and IT efficiency projects to achieve cost savings.

Our capital spending also was higher in 2005 because Aliant was able to return to more normal spending levels after the labour disruption in 2004, and because of Telesat's investments in satellite construction.

In 2006, we are targeting to reduce Bell Canada's capital intensity ratio mainly because of lower spending for maintenance of our wireline and DSL networks. Although we anticipate a decrease in overall capital expenditures, we plan on increasing investment in our key strategic priorities, including FTTN, wireless growth and network expansion, IP product development and Galileo cost saving initiatives (see *Our Strategic Priorities)*.

Other Investing Activities

Cash from other investing activities decreased by $123 million to $4 million in 2005, compared to 2004. Cash from other investing activities included insurance proceeds that Telesat received for a malfunction on the Anik F1 satellite, amounting to $179 million in 2004, compared to $30 million in 2005.

Cash Dividends Paid on Common Shares

In December 2004, the board of directors of BCE Inc. approved an increase in the annual dividend on our common shares of 10% or $0.12 per common share. We paid a dividend of $1.32 per common share in 2005.

Debt Instruments

We use a combination of short-term and long-term debt to finance our operations. Our short-term debt consists mostly of bank facilities and notes payable under commercial paper programs. We usually pay fixed rates of interest on our long-term debt and floating rates on our short-term debt.

Business Acquisitions

We invested $228 million in business acquisitions in 2005. This consisted mainly of:

• Bell Canada's acquisition of Nexxlink for $74 million

• Bell Canada's acquisition of NR Communications for $60 million

• other business acquisitions, mainly at Bell Canada, totalling $94 million.

We invested $1,118 million in business acquisitions in 2004. This consisted of:

• Bell Canada's purchase of the Canadian operations of 360 networks in November 2004 for $293 million

• our purchase of MTS' 40% interest in Bell West in August 2004 for $646 million, giving Bell Canada 100% ownership of Bell West

• other business acquisitions, mainly at Bell Canada, totalling $179 million.

Increase in Investments

Cash flows used for investments increased $175 million to $233 million in 2005. In the first quarter, Bell Canada invested US$100 million to acquire an approximate 12% interest in Clearwire Corporation, a privately-held company that offers advanced IP-based wireless broadband communications services.

Decrease in Investments

We did not have any significant decreases in investments in 2005.

In 2004, we sold our remaining 3.24% interest in YPG for net cash proceeds of $123 million and our 15.96% interest in MTS for net cash proceeds of $584 million.

Debt Instruments

In 2005, we repaid $54 million of debt, net of issues, including the following:

• Bell Canada repaid $751 million in debentures

• Aliant repaid $150 million in medium-term notes

• we repaid $66 million in notes payable and bank advances

• we made other repayments that included capital leases.

We had the following issues in 2005 :

• Bell Canada issued $900 million in debentures

• Aliant issued $150 million in medium-term notes.

In 2004, we repaid $820 million of debt, net of issues, including the following:

• Bell Canada repaid $952 million in debentures

• Aliant repaid $100 million in medium-term notes

• we redeemed all of our outstanding Series P retractable preferred shares for $ 351 million.

Most of the issues in 2004 involved:

• Bell Canada, which issued $450 million in debentures

• Bell Globemedia, which issued $300 million of senior notes.

Cash Relating to Discontinued Operations

On December 16, 2005, we announced our decision to sell our investment in CGI, and on January 12, 2006, the transaction was completed.

CGI bought 100 million of the Class A shares held by us, reducing our ownership in CGI from 29.8% to 8.6%. We received total proceeds of $859 million, generating a gain of approximately $90 million, which will be recognized in the first quarter of 2006.

As at December 31, 2005, we have accounted for CGI as discontinued operations and no longer proportionately consolidate its financial results. Our remaining investment will be accounted for at cost. CGI was previously presented in the Other BCE segment.

Cash provided by discontinued operations was $150 million in 2004. This consisted mainly of:

• net cash proceeds of $315 million from the sale of Emergis

• $285 million from the sale of Emergis' US Health operations

• $96 million of cash generated from Emergis' operations.

This was partly offset by the deconsolidation of Emergis' cash on hand of $512 million at December 31, 2003.

Credit Ratings

The interest rates we pay are partly based on the quality of our credit ratings, which were all investment grade at March 1, 2006. Investment grade ratings usually mean that when we borrow money, we qualify for lower interest rates than companies that have ratings lower than investment grade.

CREDIT RATINGS

The table below lists BCE Inc.'s and Bell Canada's key credit ratings at March 1, 2006.

	BCE INC.			
	S&P (1)	DBRS (2)	MOODY'S (3)	FITCH (4)
Commercial paper	A-1 (low)	R-1 (low) / stable	P-2	—
Long-term debt	BBB+ / negative	A (low) / stable	Baa1 / negative	BBB+ / stable
Preferred shares	P-2	Pfd-2 (low) / stable	—	—

	BELL CANADA			
	S&P (1)	DBRS (2)	MOODY'S(3)	FITCH (4)
Commercial paper	A-1 (low)	R-1 (low) / stable	P-2	—
Extendable commercial notes	—	R-1 (low) / stable	—	—
Long-term debt	A- / negative	A / stable	A3 / negative	BBB+ / stable
Subordinated long-term debt	BBB+ / negative	BBB (high) / stable	Baa1 / negative	BBB / stable
Preferred shares	P-2	Pfd-2 / stable	—	—

(1) Standard & Poor's, a division of The McGraw-Hill Companies, Inc.; maintains a negative outlook on our corporate rating

(2) Dominion Bond Rating Service Limited

(3) Moody's Investors Service, Inc.; on February 1, 2006 ratings placed under review for possible downgrade

(4) Fitch Ratings Ltd.

LIQUIDITY

We expect, in 2006, to generate enough cash from our operating activities to pay for capital expenditures and dividends. In other words, we are targeting positive free cash flow in 2006.

We expect to repay contractual obligations maturing in 2006 and in the long term from cash on hand, from cash generated from our operations or by issuing new debt. Contractual obligations include long-term debt.

Cash Requirements

In 2006, we will need cash mainly for capital expenditures, dividend payments, pension funding, the payment of contractual obligations and other cash requirements.

Capital Expenditures

Capital expenditures were $3.4 billion in 2005, representing 17.9% of our revenues for the year. We are targeting a decrease in Bell Canada's capital intensity ratio in 2006.

Pension Funding

We expect to contribute approximately $470 million to our defined benefit pension plans in 2006, subject to actuarial valuations being completed.

Contractual Obligations

The table below is a summary of our contractual obligations at December 31, 2005 that are due in each of the next five years and after 2010.

	2006	2007	2008	2009	2010	THERE-AFTER	TOTAL
Long-term debt (excluding capital leases)	1,160	1,686	1,043	1,624	1,013	5,955	12,481
Notes payable and bank advances	87	—	—	—	—	—	87
Capital leases	126	110	63	47	45	533	924
Operating leases	231	204	181	158	134	679	1,587
Commitments for capital expenditures	184	52	8	2	16	—	262
Purchase obligations	1,413	1,001	716	287	205	530	4,152
Other long-term liabilities (including current portion)	143	119	79	80	4	25	450
Total	3,344	3,172	2,090	2,198	1,417	7,722	19,943

Long-term debt and notes payable and bank advances include $58 million drawn under our committed credit facilities. They do not include $455 million of letters of credit. The total amount available under these committed credit facilities and under our commercial paper programs, including the amount currently drawn, is $2.4 billion.

The imputed interest to be paid on capital leases is $649 million.

Rental expense relating to operating leases was $316 million in 2005, $358 million in 2004 and $327 million in 2003.

Purchase obligations consist mainly of contractual obligations under service contracts. Our capital spending commitments include investments to expand and update our networks, and to meet customer demand.

Other long-term liabilities included in the table relate to:

• payments Bell Canada will make in the future to Amdocs Canadian Managed Services, Inc. (formerly Certen Inc.) for the development of Bell Canada's billing system. The total amount remaining in the contract was $254 million at December 31, 2005.

• remaining obligations of Bell Globemedia relating to CRTC benefits that were owed on previous business combinations. These obligations and other long-term liabilities totalled $85 million at December 31, 2005.

• deferred satellite performance incentive payments and milestone payments by Telesat, totalling $111 million at December 31, 2005.

The table on the previous page does not include our proportionate share of CGI's operating leases and other contractual obligations. This information is disclosed in Note 8 to the consolidated financial statements.

At December 31, 2005, we had other long-term liabilities that are not included in the table, including an accrued employee benefit liability, future income tax liabilities, deferred revenue and gains on assets and various other long-term liabilities.

We did not include the accrued employee benefit liability and future income tax liabilities in the table because we cannot accurately determine the timing and amount of cash needed for them. This is because:

• future contributions to the pension plans depend largely on how well they are funded. This varies based on the results of actuarial valuations that are performed periodically and on the investment performance of the pension fund assets.

• future payments of income taxes depend on the amount of taxable earnings and on whether there are tax loss carryforwards available to reduce income tax liabilities.

We did not include deferred revenue and gains on assets in the table because they do not represent future cash payments.

Other Cash Requirements

Our cash requirements may also be affected by the liquidity risks related to our off-balance sheet arrangements, derivative instruments and contingencies. We may not be able to quantify all of these risks.

Off-Balance Sheet Arrangements

Guarantees

As a regular part of our business, we enter into agreements that provide for indemnifications and guarantees to counterparties in transactions involving business dispositions, sales of assets, sales of services, purchases and development of assets, securitization agreements and operating leases.

We cannot reasonably estimate the maximum potential amount we could be required to pay counterparties because of the nature of almost all of these indemnifications. As a result, we cannot determine how they could affect our future liquidity, capital resources or credit risk profile. We have not made any significant payments under these indemnifications in the past. See Note 26 to the consolidated financial statements for more information.

Securitization of Accounts Receivable

Bell Canada and Aliant have agreements in place to provide us with an inexpensive source of funds.

Under the agreements, Bell Canada and Aliant sold interests in pools of accounts receivable to securitization trusts for a total of $1,354 million.

The total accounts receivable that were sold must meet minimum performance targets. These are based on specific delinquency, default and receivable turnover ratio calculations, as well as minimum credit ratings. If these accounts receivable go into default, the full purchase price will have to be returned to the buyers.

These agreements are an important part of our capital structure and liquidity. If we did not have them, we would have had to finance approximately $1,354 million by issuing debt or equity. See Note 10 to the consolidated financial statements for more information.

Commitment under the CRTC Deferral Mechanism

As at December 31, 2005, we had estimated Bell Canada's and Aliant's current deferral account amounts, expressed as a future annualized commitment, at $95 million for Bell Canada and $12 million for Aliant.

On February 16, 2006, the CRTC issued Telecom Decision 2006-9, where it estimated Bell Canada's and Aliant's deferral account amounts, on an accumulated balance and future annualized commitment, at May 31, 2006. Bell Canada's estimated accumulated balance at May 31, 2006 is $480.5 million with a future annualized commitment of $81.5 million. Aliant's estimated accumulated balance at May 31, 2006 is $21.8 million with a future annualized commitment of $2.2 million.

In the Decision, the CRTC concluded that incumbent telephone companies should clear the accumulated balances in their deferral accounts, to the greatest extent possible, in the following ways:

• by expanding broadband services to rural and remote areas that are currently unserved and would not otherwise be served

• by improving the accessibility to telecommunications services for persons with disabilities, using a minimum of 5.0% of incumbent telephone companies' accumulated deferral account balances

• any amounts remaining in incumbent telephone companies' deferral accounts after accounting for these two programs will be rebated to incumbent telephone companies' residential local customers in non-high cost serving areas. The timing and amount of the rebate, if any, is uncertain.

This Decision also indicates that incumbent telephone companies' future annual deferral account obligations are to be eliminated by reducing monthly prices for primary exchange service and optional local services for residential customers in non-high cost serving areas. Bell Canada, Aliant and certain other incumbent telephone companies are directed to file their rate proposals by May 15, 2006 and implement them on June 1, 2006.

Finally, the Decision notes that the extension of the price cap regime to May 31, 2007 will result in an additional annual deferral account obligation.

Derivative Instruments

We use derivative instruments to manage our exposure to interest rate risk, foreign currency risk and changes in the price of BCE Inc. common shares that may be issued or purchased under our compensation plans (SCPs and DSUs). We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

The carrying value of the outstanding derivative instruments was a net liability of $91 million at December 31, 2005. Their fair values amounted to a net liability of $138 million. See Note 21 to the consolidated financial statements for more information.

Litigation

We become involved in various claims and litigation as part of our business. While we cannot predict the final outcome of claims and litigation that were pending at December 31, 2005, based on information currently available, management believes that the resolution of these claims and litigation will not have a material and negative effect on our consolidated financial position or results of operations.

You will find a more detailed description of the material claims and litigation pending at December 31, 2005 in the BCE 2005 AIF, and in Note 25 to the consolidated financial statements.

Sources of Liquidity

While we do not expect a cash shortfall in the foreseeable future, any unplanned shortfall would be covered through the financing facilities we currently have in place.

These financing facilities, along with our strengthening balance sheet, give us flexibility in carrying out our plans for future growth. If necessary, we can supplement our liquidity sources by issuing additional debt or equity. We might do this to help finance business acquisitions or for contingencies.

The table below is a summary of our outstanding lines of credit, bank facilities and commercial paper programs at December 31, 2005.

	COMMITTED	NON-COMMITTED	TOTAL
Commercial paper credit lines (1)	1,513	2,000	3,513
Other credit facilities (2)	916	413	1,329
Total	2,429	2,413	4,842
Drawn (2)	513	—	513
Undrawn	1,916	2,413	4,329

(1) Current commercial paper credit lines expire during August 2008

(2) Includes $455 million in letters of credit

BCE Inc., Bell Canada and Aliant may issue notes under their commercial paper programs up to the amount of their supporting committed lines of credit. The total amount available under these supporting committed lines of credit was $1.5 billion at December 31, 2005.

BCE Inc., Bell Canada and Aliant had $45 million in commercial paper outstanding at December 31, 2005.

Bell Canada can issue up to $400 million Class E notes under its commercial paper programs. These notes are not supported by committed lines of credit and may be extended in certain circumstances. Bell Canada had no Class E notes outstanding at December 31, 2005.

RELATED PARTY TRANSACTION

BCI Loss Monetization Transaction

On April 15, 2005, 3787915 Canada Inc., a wholly-owned subsidiary of Bell Canada, acquired $17 billion in preferred shares from 3787923 Canada Inc., a wholly-owned subsidiary of BCI. 3787923 Canada Inc. used the proceeds to advance $17 billion to BCI through a subordinated interest-free loan. BCI then advanced $17 billion to 3787915 Canada Inc. by way of a subordinated interest-bearing demand loan, the funds being used to repay a daylight loan granted to 3787915 Canada Inc. to make the initial preferred share investment. The dividend rate on the preferred shares was equal to 5.1%, which was essentially the same as the interest rate on the loan.

This transaction was unwound on August 18, 2005 and was part of a tax loss consolidation strategy that followed the transaction steps laid out in an advance tax ruling granted by the Canada Revenue Agency to Bell Canada and BCI. The transaction also received the approval of the Ontario Superior Court of Justice, which is supervising BCI's voluntary plan of arrangement pursuant to which BCI is monetizing its assets and resolving outstanding claims against it, with the ultimate objective of distributing the net proceeds to its shareholders and dissolving the company.

3787915 Canada Inc. had the legal right and intention to offset the demand loan payable to BCI and the investment in preferred shares of 3787923 Canada Inc. As a result, these items and the related interest expense and dividend income were presented on a net basis. The tax savings of $99 million resulting from the interest expense were presented as a reduction of income tax expense.

BCI will be compensated for the use of its losses by Bell Canada through a capital contribution to be made by BCE Inc. of 88% of the realized tax savings. BCE Inc.'s ownership interest in BCI remains at 62%. As a result:

• BCE Inc.'s carrying value of its investment in BCI was increased to reflect the increase in BCE Inc.'s share of the expected proceeds upon BCI's eventual liquidation

• a charge to other income was recorded to reflect the non-controlling interest's portion of the capital contribution to be made by BCE Inc.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

An evaluation of the effectiveness of BCE Inc.'s disclosure controls and procedures (as defined in the rules of the U.S. Securities and Exchange Commission and of the Canadian Securities Administrators) was carried out as of December 31, 2005 by BCE Inc.'s management, under the supervision and with the participation of BCE Inc.'s President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on that evaluation, the CEO and CFO concluded that such disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to BCE Inc. and its consolidated subsidiaries would be made known to them by others within those entities.

Assumptions Made in the Preparation of Forward-Looking Statements and Risks that Could Affect Our Business and Results

This section describes assumptions made by BCE in preparing forward-looking statements and general risks that could affect all BCE group companies and specific risks that could affect BCE Inc. and certain other BCE group companies.

A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition, results of operations or business of one or more BCE group companies. Part of managing our business is to understand what these potential risks could be and to minimize them where we can.

Because no one can accurately predict whether an event that is only possible will actually happen or what its consequences may be, the actual effect of any event on our business and results could be materially different from what we currently anticipate. In addition, this description of risks does not include all possible risks, and there may be other risks that we are currently not aware of.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS

Forward-looking statements for 2006 made in BCE's 2005 annual report, including in this MD&A, are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. This section outlines assumptions that we made in addition to those set out in other sections of this MD&A. If our assumptions turn out to be inaccurate, our actual results could be materially different from what we expect.

Assumptions about the Canadian Economy

- Canadian GDP growth of approximately 3% in 2006, which is consistent with estimates by the Conference Board of Canada
- the business prime rate in Canada to increase slightly from its 2005 year-end level
- the Consumer Price Index (estimated by Statistics Canada) to increase slightly from its 2005 year-end level.

Market Assumptions

- growth in the overall Canadian telecommunications market slightly higher than GDP in 2006
- continued decrease in the residential voice telecommunications market in 2006 because more consumers are expected to use wireless, e-mail and instant messaging instead
- increase in the wireline competition in both the business and residential telecommunications markets in 2006, mainly from cable companies
- growth in revenues for the Canadian wireless industry in 2006 similar to the rate of growth in 2005
- growth in revenues for the Canadian video market in 2006 slightly lower than the rate of growth in 2005
- growth in revenues for the Canadian Internet market in 2006 also slightly lower than the rate of growth in 2005.

Operational and Financial Assumptions

Subscribers and Services

- growth in the number of our wireless, video and high-speed Internet subscribers as well as higher ARPU for these services are targeted in 2006
- continued decrease in our network access services is expected in 2006, with significantly higher declines in our Residential segment.

Financial

- significant cost savings are targeted in 2006 as a result of our Galileo program, including from internal process redesign and supply transformation
- restructuring costs are expected to result in 2006 mainly from reductions in our workforce
- amortization expense is expected to increase in 2006 as a result of an increase in our capital base, reflecting mainly the capitalization of STB and installation costs associated with the new rental program in our video business unit, the completion in 2005 of the Alberta SuperNet and Telesat's new Anik F1R and Anik F3 satellites
- total net benefit plans cost is expected to increase in 2006 mainly as a result of a further reduction in the discount rate from 6.2% in 2005 to 5.2% in 2006
- Bell Canada's capital intensity is targeted to decrease in 2006 mainly as a result of anticipated lower spending for maintenance of our wireline and DSL networks which is expected to be partly offset by increased investment in our key strategic priorities.

Assumptions about Transactions

- BCE Inc. plans to repurchase 5.0% of its common shares under its previously announced normal course issuer bid
- we expect to complete the disposition of our remaining interest in CGI Group Inc.
- we expect to reduce our equity interest in Bell Globemedia from 68.5% to 20% as announced on December 2, 2005. The expected closing of the Bell Globemedia transaction is subject to a number of approvals and closing conditions, including approval by the CRTC and the Competition Bureau, and other closing conditions that are customary in this type of transaction.
- we expect to complete the creation of a regional telecommunications service provider in the form of an income trust.

Increasing Competition

Competition affects our pricing strategies and could reduce our revenues and lower our profitability. It could also affect our ability to retain existing customers and attract new ones. We are under constant pressure to keep our prices and service offerings competitive. We need to be able to anticipate and respond quickly to the constant changes in our businesses and markets.

RISKS THAT COULD AFFECT ALL BCE GROUP COMPANIES

Bell Canada is our most important subsidiary, which means our financial performance depends in large part on how well Bell Canada performs financially. The risks that could affect Bell Canada and its subsidiaries are more likely to have a significant impact on our financial condition, results of operations and business than the risks that could affect other BCE group companies.

Strategies and Plans

We plan to achieve our business objectives through various strategies and plans.

In 2006, we plan to continue to implement our strategy to deliver unrivalled integrated communication services to customers across Canada in the most efficient and cost-effective manner. This strategy is founded on the three key pillars referred to earlier in this MD&A under *Our Strategic Priorities* and is supported by our four operating priorities for 2006 concerning service, customer retention, growth services and costs, also referred to under *Our Strategic Priorities*.

Our strategic direction requires us to transform our cost structure and the way in which we serve customers. This means we will need to:

• be responsive in adapting to these changes and make any necessary shifts in employee skills. If our management, processes or employees are not able to adapt to these changes, our business and financial results could be materially and negatively affected.

• invest capital to implement our strategies and operating priorities. The actual amount of capital required and the returns from these investments could, however, differ materially from our current expectations. In addition, we may not have access to capital on attractive terms when we need it.

Not achieving our business objectives could have a material and negative impact on our financial performance and growth prospects.

Economic and Market Conditions

Our business is affected by general economic conditions, consumer confidence and spending, and the demand for, and prices of, our products and services. When there is a decline in economic growth and in retail and commercial activity, there tends to be a lower demand for our products and services. During these periods, customers may delay buying our products and services, or reduce purchases or discontinue using them.

Weak economic conditions could lower our profitability and reduce cash flows from operations. They could also negatively affect the financial condition and creditworthiness of our customers, which could increase uncertainty about our ability to collect receivables and potentially increase our bad debt expenses.

Increasing Competition

We face intense competition from traditional competitors, as well as from new players entering our markets. We compete with telecommunications, media, television and satellite service providers. We also compete with other businesses and industries including cable, software and Internet companies, a variety of companies that offer network services, such as providers of business information systems, systems integrators and other companies that deal with, or have access to, customers through various communications networks.

We already have several domestic and foreign competitors, but the number of well resourced foreign competitors with a presence in Canada could increase in the future. In recent years, the Government of Canada has reviewed the foreign ownership restrictions that apply to telecommunications carriers and to broadcasting distribution undertakings (BDUs). Removing or easing the limits on foreign ownership could result in foreign companies entering the Canadian market by making acquisitions or investments. This could result in greater access to capital for our competitors or the arrival of new competitors with global scale, which would increase competitive pressure. We cannot predict what action, if any, the federal government will take as a result of these reviews. We also cannot assess how any change in foreign ownership restrictions may affect us because the government continues to consider its position on these matters.

Wireline and Long Distance

We experience significant competition in the provision of long distance service from dial-around providers, prepaid card providers, VoIP service providers and others, and from traditional competitors such as interexchange carriers and resellers. We also face increasing cross-platform competition as customers replace traditional services with new technologies. For example, our wireline business competes with VoIP, wireless and Internet services, including chat services, instant messaging and e-mail.

We are also facing increasing competitive pressure from cable companies as a result of their now offering voice services over their networks. Since cable companies only recently started offering voice services, it is difficult to predict the extent and timing of any resulting loss in market share that we might suffer. It is also difficult to predict to what degree customers who stop using our voice services will also stop using our other services such as video and Internet access. Additional competitive pressure is also emerging from other competitors such as electrical utilities. These alternative technologies, products and services are now making significant inroads in our legacy services, which typically represent our higher-margin business.

Technology substitution, and VoIP in particular, have reduced barriers to entry in the industry. This has allowed competitors with far lower investments in financial, marketing, personnel and technological resources to rapidly launch new products and services and gain market share. We expect this trend to accelerate in the future, which could materially and negatively affect our financial performance.

Competition for contracts to supply long distance services to large business customers is very intense. Customers may choose to switch to competitors that offer lower prices to gain market share and are less concerned about the quality of service or impact on their margins.

These competitive factors suggest that our legacy wireline accesses and long distance volumes will continue to decline in the future. Continued decline will lead to reduced economies of scale in those businesses and, in turn, lower margins. Our strategy is to mitigate these declines by building the business for newer growth services. The margins on newer services, however, will likely be less than the margins on legacy services. If the legacy services decline faster than the rate of growth of our newer services, our financial performance could be negatively and materially affected. In addition, if a large portion of the customers who stop using our voice services also cease using our other services, our financial performance could be negatively and materially affected.

Internet Access

We compete with cable companies and ISPs to provide broadband and Internet access and related services. In particular, cable companies have focused on increased bandwidth and discounted pricing on bundles to compete against us.

Regional electrical utilities may continue to develop and market services that compete directly with Bell Canada's Internet access and broadband services. Developments in wireless broadband services may also lead to increased competition in certain geographic areas. This could materially and negatively affect the financial performance of our Internet access services business.

Wireless

The Canadian wireless telecommunications industry is also highly competitive. We compete directly with other wireless service providers that aggressively introduce, price and market their products and services. We also compete with wireline service providers. We expect competition to intensify as new technologies, products and services are developed.

Video

Bell ExpressVu competes directly with another DTH satellite television provider and with cable companies across Canada. These cable companies have upgraded their networks, operational systems and services, which could improve their competitiveness. This could materially and negatively affect the financial performance of Bell ExpressVu and Bell Canada.

Transforming Our Cost Structure and Containing Capital Intensity

Our strategies and operating priorities require us to transform our cost structure. Accordingly, we are intensifying the implementation of several productivity improvements and initiatives to reduce costs while containing our capital expenditures. Our objectives for cost reduction under our new cost structure

are aggressive compared to what we achieved in the past, and there is no assurance that these initiatives will be successful in reducing costs. There will be a material and negative effect on our profitability if we do not successfully implement these cost reduction initiatives and productivity improvements and manage capital expenditures while maintaining the quality of our service.

Each year between 2002 and 2005, Bell Canada companies had to reduce the price of certain services that are subject to regulatory price caps and may be required to do so again in the future. They have also reduced their prices for some business data services that are not regulated in order to remain competitive, and may have to continue doing so in the future. Their profits will decline if they cannot reduce their expenses at the same rate. There would be a material and negative effect on our profitability if market factors, such as increasing competition or regulatory actions, result in lower revenues and we cannot reduce our expenses at the same rate.

Many productivity improvements and cost reduction initiatives require capital expenditures to implement systems that automate or enhance our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions.

Improved customer service is critical to increasing customer retention and average revenue per user. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either of these objectives, it could have a material and negative effect on our results of operations.

Anticipating Technological Change and Investing in New Technologies, Products and Services

We operate in markets that are affected by constant technological change, evolving industry standards, changing client needs, frequent introductions of new products and services, and short product life cycles. The investment in new technologies, products and services and the ability to launch, on a timely basis, such technologies, products and services are critical to increasing the number of our subscribers and achieving our targeted financial performance.

Liquidity

Our ability to meet our financial obligations and provide for planned growth depends on our sources of liquidity.

Our cash requirements may be affected by the risks associated with our contingencies, off-balance sheet arrangements, derivative instruments and assumptions built into our business plan.

Anticipating Technological Change and Investing in New Technologies, Products and Services

Our success will depend in large part on how well we can anticipate and respond to changes in industry standards and client needs, and how quickly and efficiently we can introduce new products, services and technologies, and upgrade existing ones.

We may face additional financial risks as we develop new products, services and technologies, and update our networks to stay competitive. Newer technologies, for example, may quickly become obsolete or may need more capital than expected. Development could be delayed for reasons beyond our control. Substantial investments usually need to be made before new technologies prove to be commercially viable. There is also a significant risk that current regulation could be expanded to apply to newer technologies. A regulatory change could delay our launch of new services and restrict our ability to market these services if, for example, new pricing rules or marketing or bundling restrictions are introduced, or existing ones are extended.

The Bell Canada companies are in the process of moving traffic on their core circuit-based infrastructure to IP technology. As part of this move, the Bell Canada companies are in the process of discontinuing certain services that are based on circuit-based infrastructure. This is a necessary component of improving capital and operating efficiencies. In some cases, this could be delayed or prevented by customers or regulatory actions. If the Bell Canada companies cannot discontinue these services as planned, they will not be able to achieve the efficiencies as expected.

There is no assurance that we will be successful in developing, implementing and marketing new technologies, products, services or enhancements in a reasonable time, or that they will have a market. There is also no assurance that efficiencies will increase as expected. New products or services that use new or evolving technologies could make our existing ones unmarketable or cause prices to fall.

Liquidity

In general, we finance our capital needs in four ways:

- from cash generated by our operations or investments
- by borrowing from commercial banks
- through debt and equity offerings in the capital markets
- by selling or otherwise disposing of assets.

Financing through equity offerings would dilute the holdings of existing equity investors. An increased level of debt financing could lower our credit ratings, increase our borrowing costs and give us less flexibility to take advantage of business opportunities.

Our ability to raise financing depends on our ability to access the capital markets and the syndicated commercial loan market. The cost of funding depends largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. If our credit ratings are downgraded, our cost of funding could significantly increase. In addition, participants in the capital and syndicated commercial loan markets have internal policies limiting their ability to

invest in, or extend credit to, any single borrower or group of borrowers or to a particular industry.

BCE Inc. and some of its subsidiaries have entered into renewable credit facilities with various financial institutions. They include credit facilities supporting commercial paper programs. There is no assurance that these facilities will be renewed on favourable terms.

We need significant amounts of cash to implement our business plan. This includes cash for capital expenditures to provide our services, dividend payments and payment of our contractual obligations, including repayment of our outstanding debt.

Our plan in 2006 is to generate enough cash from our operating activities to pay for capital expenditures and dividends. We expect to pay contractual obligations maturing in 2006 from cash on hand, from cash generated from our operations or by issuing debt. If actual results are different from our business plan or if the assumptions in our business plan change, we may have to raise more funds than expected by issuing debt or equity, borrowing from banks or selling or otherwise disposing of assets.

If we cannot raise the capital we need upon acceptable terms, we may have to:

- limit our ongoing capital expenditures
- limit our investment in new businesses
- try to raise additional capital by selling or otherwise disposing of assets.

Any of these could have a material and negative effect on our cash flow from operations and on our growth prospects.

Acquisitions and Dispositions

Our growth strategy includes making strategic acquisitions and entering into joint ventures. We also from time to time dispose of assets or all or part of certain businesses. There is no assurance that we will find suitable companies to acquire or to partner with, or that we will have the financial resources needed to complete any acquisition or to enter into any joint venture. There could also be difficulties in integrating the operations of acquired companies with our existing operations or in operating joint ventures.

There is also no assurance that we will be able to complete any announced dispositions or that we will use the funds received as a result of such dispositions for any specific purpose that may be publicly anticipated.

Acquisitions and dispositions may be subject to various conditions, such as approvals by regulators and holders of our securities and other closing conditions, and there can be no assurance that, with respect to any specific acquisition or disposition, all such conditions will be satisfied.

Litigation, Regulatory Matters and Changes in Laws

Pending or future litigation, regulatory initiatives or regulatory proceedings (including the increase of class action claims) could have a material and negative effect on our businesses, operating results and financial condition.

Changes in laws or regulations or in how they are interpreted, and the adoption of new laws or regulations, could also materially and negatively affect us. This includes changes in tax laws or the adoption of new tax laws that result in higher tax rates or new taxes. It also includes the amendments to the *Securities Act of Ontario* that took effect December 31, 2005. These amendments introduced statutory civil liability for misrepresentations in continuous disclosure and failure to disclose material changes on a timely basis, and could result in an increase in the number of securities class action claims. BCE could have to devote considerable management time and resources to responding to such securities class action claims.

Funding and Control of Subsidiaries

If BCE Inc. or Bell Canada decides to stop funding any of its subsidiaries and that subsidiary does not have other sources of funding, this would have a material and negative effect on the subsidiary's results of operations and financial condition and on the value of its securities. It could also have, depending on factors such as the size or strategic importance of the subsidiary, a material and negative effect on the results of operations and financial condition of BCE Inc. or Bell Canada.

In addition, BCE Inc. and Bell Canada do not have to remain the majority holder of, or maintain their current level or nature of ownership in, any subsidiary, unless they have agreed otherwise. An announcement of a decision by BCE Inc. or Bell Canada to change the nature of its investment in a subsidiary, to dispose of some or all of its interest in a subsidiary, or any other similar decision could have a material and negative effect on the subsidiary's results of operations and financial condition and on the value of its securities.

Litigation, Regulatory Matters and Changes in Laws

For a description of the principal legal proceedings involving us, please see *Legal Proceedings We Are Involved In*, in the BCE 2005 A1F.

For a description of certain regulatory initiatives and proceedings affecting the Bell Canada companies, please see *The Regulatory Environment We Operate In*, in the BCE 2005 A1F.

Funding and Control of Subsidiaries

BCE Inc. and Bell Canada are currently funding, directly or indirectly, and may in the future continue to fund, the operating losses of some of their subsidiaries, but they are under no obligation to continue doing so.

Renegotiating Labour Agreements

Approximately 47% of our employees are represented by unions and are covered by collective agreements.

If BCE Inc. or Bell Canada stops funding a subsidiary, changes the nature of its investment or disposes of all or part of its interest in a subsidiary, stakeholders or creditors of the subsidiary might decide to take legal action against BCE Inc. or Bell Canada. For example, certain members of the lending syndicate of Teleglobe, a former subsidiary of BCE Inc., and other creditors of Teleglobe have launched lawsuits against BCE Inc. following its decision to stop funding Teleglobe. You will find a description of these lawsuits in the BCE 2005 AIF under *Legal Proceedings We Are Involved In* . While we believe that these kinds of claims have no legal foundation, they could negatively affect the market price of BCE Inc.'s or Bell Canada's securities. BCE Inc. and Bell Canada could also have to devote considerable management time and resources to respond to such a claim.

Pension Fund Contributions

We have not had to make regular contributions to our pension funds in recent years because most of our pension plans have had pension fund surpluses. However, historically low interest rates combined with new actuarial standards that came into effect in February 2005 have eroded the pension fund surpluses. This has negatively affected our net earnings and liquidity. We expect to contribute approximately $470 million to our defined benefit pension plans in 2006, subject to actuarial valuations being completed.

The funding status of our pension plans resulting from future valuations of our pension plan assets and liabilities depends on a number of factors, including:

• actual returns on pension plan assets

• long-term interest rates.

These factors could require us to increase contributions to our defined benefit pension plans in the future and therefore could have a material and negative effect on our liquidity and results of operations.

Renegotiating Labour Agreements

Renegotiating collective agreements could result in higher labour costs and work disruptions, including work stoppages or work slowdowns. Difficulties in renegotiations or other labour unrest could significantly hurt our business, operating results and financial condition.

There can be no assurance that if a strike occurs, it would not disrupt service to Bell Canada's customers. In addition, work disruptions at our service providers, including work slowdowns and work stoppages due to strikes, could significantly hurt our business, including our customer relationships and results of operations.

Events Affecting Our Networks

Network failures could materially hurt our business, including our customer relationships and our operating results. Our operations depend on how well we protect our networks, equipment, applications and the information stored in our data centres against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, acts of war or terrorism and other events. Our operations also depend on timely replacement and maintenance of our networks and equipment. Any of these events could cause our operations to be shut down indefinitely.

Our networks are connected with the networks of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned in the previous paragraph, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could also hurt our business, including our customer relationships and our operating results.

Software and System Upgrades

Many aspects of our business, such as providing telecommunication services and customer billing, among others, depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time. Implementing system and software upgrades and conversions is a very complex process, which may have several adverse consequences including billing errors and delays in customer service. Any of these events could significantly damage our customer relationships and business and have a material and negative effect on our results of operations.

Holding Company Structure

BCE Inc. is a holding company. That means it does not carry on any significant operations and has no major sources of income or assets of its own, other than the interests it has in its subsidiaries, joint ventures and significantly influenced companies.

Stock Market Volatility

The stock markets have experienced significant volatility over the past few years, which has affected the market price and trading volumes of the shares of many telecommunications companies in particular.

Regional Telecommunications Service Provider

We have proposed forming a new regional telecommunications service provider in the form of an income trust which would combine Bell Canada's regional wireline operations with Aliant's wireline operations. The new income trust would also own Bell Canada's 63.4% interest in NorthernTel and Télébec. Completion of this transaction is subject to a number of conditions that include, among others:

• receiving advance income tax rulings from the Canada Revenue Agency

• receiving approval from the CRTC

• receiving an advance ruling certificate from the Competition Bureau

• receiving approvals from the appropriate securities commissions, regulators and stock exchanges

• receiving required third party consents on satisfactory terms

• receiving required approvals from Aliant's shareholders

• receiving necessary court approvals

• arranging satisfactory bank financing.

The proposed transaction involves the integration of various operations previously operated independently and there can be no assurance that the resulting combined operation will realize the anticipated synergies or that other benefits expected from the transaction will be realized.

Although our goal is to complete the proposed transaction without affecting our customers or future customers of the trust, there can be no assurance that the proposed transaction will not result in customer service disruptions. Customer service disruptions may have a negative effect on our operations and financial results, and those of the trust in particular.

Although we expect the trust to make regular cash distributions to unitholders, these are not assured and may be reduced or suspended. The ability of the trust to maintain cash distributions will be subject to certain risks associated with its business and operations, including risks relating to:

• general economic conditions

• increasing competition

• changes in technology, industry standards and client needs

• the trust's ability to quickly and efficiently introduce new products, services and technologies and upgrade existing ones in response to these changes

• the impact of pending or future litigation or regulatory proceedings or changes in laws.

If the trust does not meet its targets for cash distributions, the value of its units could decline substantially.

Following the closing of the proposed transaction, BCE expects to reduce its indirect interest in the trust through a distribution of trust units to holders of BCE Inc. common shares. The distribution of trust units by BCE is subject to various conditions including approval by BCE Inc.'s shareholders and necessary court approvals.

Telesat

We expect the proposed recapitalization and public offering of a minority stake in Telesat to take several months to complete. During this time, the rapid pace of change in the industry and the potential for regulatory developments and/or changes in laws may make the proposed recapitalization and public offering less favourable, or other transactions and opportunities may emerge that for business reasons BCE Inc. considers to be more attractive. Business reasons could include the availability of financing on acceptable terms and the condition of relevant capital markets, among others. There is no assurance that the proposed recapitalization and public offering for Telesat will be completed in its current form or at all.

RISKS THAT COULD AFFECT BCE INC.

Holding Company Structure

BCE Inc.'s cash flow and its ability to service its debt and to pay dividends on its shares depend on dividends or other distributions it receives from its subsidiaries, joint ventures and significantly influenced companies and, in particular, from Bell Canada. BCE Inc.'s subsidiaries, joint ventures and significantly influenced companies are separate legal entities and they have no legal obligation to pay dividends or make other distributions to BCE Inc.

Stock Market Volatility

Differences between BCE Inc.'s actual or anticipated financial results and the published expectations of financial analysts may also contribute to volatility in BCE Inc.'s common shares. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of BCE Inc.'s common shares or other securities, may materially and negatively affect our ability to raise capital, issue debt, retain employees, make strategic acquisitions or enter into joint ventures.

RISKS THAT COULD AFFECT CERTAIN BCE GROUP COMPANIES

Bell Canada Companies

Changes to Wireline Regulation

Decisions of Regulatory Agencies

Second Price Cap Decision

In May 2002, the CRTC issued decisions relating to new price cap rules that govern incumbent telephone companies for the four-year period starting in June 2002.

The CRTC also established the deferral account, an obligation that changes as amounts are added to the account, or the CRTC approves initiatives that serve to reduce the account.

The accumulated deferral account balance in Bell Canada's and Aliant's deferral accounts at the end of May 31, 2006 is estimated at $480.5 million for Bell Canada and $21.8 million for Aliant, while the future annualized recurring deferral account obligation as of the same date is estimated at $81.5 million for Bell Canada and $2.2 million for Aliant.

On February 16, 2006, the CRTC issued Telecom Decision 2006-9, where it concluded that incumbent telephone companies should clear the accumulated balances in their deferral accounts, to the greatest extent possible, in the following ways:

• by expanding broadband services to rural and remote areas that are currently unserved and would not otherwise be served

• by improving the accessibility to telecommunications services for persons with disabilities, using a minimum of 5.0% of incumbent telephone companies' deferral account balances.

Incumbent telephone companies have been directed to file their proposals related to the above by June 30, 2006. Any amounts remaining in incumbent telephone companies' deferral accounts after accounting for these two programs will be rebated to incumbent telephone companies' residential local customers in non-high cost serving areas.

There is a risk that Bell Canada's and Aliant's proposed implementation timeframes may be accelerated, which could have a material and negative effect on their results of operations.

Competitor Digital Network Service

The CRTC determined that CDN services should include not only digital network access components but also intra-exchange facilities, inter-exchange facilities in certain metropolitan areas, and channelization and co-location links (expanded CDN services). This decision affected Bell Canada and Aliant as providers of CDN services in their own operating territories and as purchasers of those services elsewhere in Canada.

There are two important financial aspects to note in this decision:

• the prices for all CDN services were applied on a going-forward basis, as of the date of the decision, and Bell Canada will be compensated from the deferral account for the revenue losses from this decision

• Bell Canada will also be compensated through the deferral account for applying reduced rates retroactively for the CDN access components that were tariffed at interim rates prior to the decision.

Retail Quality of Service Indicators

On March 24, 2005, the CRTC released Telecom Decision 2005-17 which, among other things, established the rate adjustment plan to be applied when incumbent telephone companies do not meet mandated standards of quality of service provided to their retail customers. As a result of this decision, incumbent telephone companies are subject to a penalty mechanism when they do not meet one or more service standards for their retail services. For Bell Canada, this maximum potential penalty amount equates to approximately $245 million annually, based on 2004 revenues.

Decisions of Regulatory Agencies

The business of the Bell Canada companies is affected by decisions made by various regulatory agencies, including the CRTC. For example, many of the decisions of the CRTC indicate that they try to balance requests from competitors for access to facilities, such as the telecommunications networks, switching and transmission facilities, and other network infrastructure of incumbent telephone companies, with the rights of the incumbent telephone companies to compete reasonably freely. There is a risk that decisions of the CRTC, and in particular the decisions relating to prices at which we must provide such access, may have a negative effect on our business and results of operations.

Decisions of, and proceedings involving, regulatory agencies including the CRTC are described in more detail in the section entitled *The Regulatory Environment We Operate In* of the BCE 2005 AIF.

Competitor Digital Network Service

On February 3, 2005, the CRTC released Telecom Decision 2005-6 on CDN services. This decision set the rates, terms and conditions for the provision of digital network services by Bell Canada and the other incumbent telephone companies to their competitors.

In the current penalty period of January 1 to December 31, 2005, the CRTC standard for several indicators was not met on an annual average basis because of the strike in 2005 by the Communications, Energy and Paperworkers' Union of Canada at Bell Canada's supplier of installation and repair services, Bell Technical Solutions Inc. (formerly Entourage Technology Solutions Inc.). Bell Canada has requested that the CRTC approve its December 5, 2005 application for the purpose of excluding below-standard strike-related results as a *force majeure* type exclusion. However, there is no assurance that the CRTC will issue a favourable decision and Bell Canada may be required to pay a penalty of up to $19 million.

The CRTC determined that Aliant did not meet certain service standards during the period of January 1 to December 31, 2004. Applying the rate adjustment plan would result in an estimated penalty of $3 million. Aliant has applied to the CRTC for an exclusion from having to pay a penalty due to its labour disruption in 2004, as allowed for in the decision. The CRTC has not yet ruled on this application. Regarding the penalty period of January 1 to December 31, 2005, the CRTC standard for two indicators was missed on an annual average basis, resulting in a possible penalty of approximately $2 million.

Decision of VoIP Regulation

On May 12, 2005, the CRTC released Telecom Decision 2005-28, which determined the way the CRTC will regulate VoIP services. The CRTC determined that VoIP services (other than peer-to-peer services, defined in the decision as Internet Protocol communications services between two computers) provided by Bell Canada and other incumbent telephone companies will be regulated in the same way as traditional telephone services.

As a result of this decision, VoIP services that use telephone numbers that conform to the North American numbering plan, and that provide universal access to and/or from the public switched telephone network will, for incumbent telephone companies, be treated as regulated local exchange services. Accordingly, tariffs have to be filed by incumbent telephone companies, but not by their competitors, when they provide customers with local VoIP services using a telephone number associated with that incumbent telephone company's territory. In addition, the winback rules will apply, which means that incumbent telephone companies cannot attempt to directly contact a former residential local service customer for a period of 12 months from the time the customer decides to buy traditional local telephone service or VoIP service from a competitor. Other restrictions on promotions and bundling that apply to traditional local wireline services also apply to VoIP. These regulatory requirements could reduce Bell Canada's and Aliant's flexibility to compete with both traditional and new competitors, which could have a material and negative effect on our business and results of operations.

Also as a result of Telecom Decision 2005-28, incumbent telephone companies as well as competitive local exchange carriers will have to fulfill, in relation to VoIP services, other requirements that apply to traditional telephone services, such as:

- allowing customers to keep their local number when they change service providers within the same local area (local number portability)
- allowing customers to use any long distance provider of their choice
- listing telephone numbers in the directory associated with the local telephone number chosen by the customer
- offering services for the hearing impaired
- implementing safeguards to protect customer privacy.

These regulatory requirements could increase operational costs and reduce Bell Canada's and Aliant's flexibility to compete with resellers, and could therefore have a negative effect on our business and results of operations. Bell Canada and several other parties have petitioned the Governor in Council to overturn the CRTC's decision.

In 2005, Bell Canada introduced three retail VoIP services in Québec and Ontario. These services are offered pursuant to tariffs that have received interim approval from the CRTC. CRTC public processes relating to these filings were held in 2005 and decisions on final approval of the tariffs are expected in March 2006. The CRTC has, on an interim basis, permitted Bell Canada to file VoIP tariff notices for the CRTC's approval, on a confidential basis, which provide for minimum and maximum rates associated with each proposed VoIP service plan. Once the minimum and maximum rates are approved, for all future price changes within that range, Bell Canada can issue new tariff pages on their effective date. No additional CRTC approvals are required for price changes within the ranges. The CRTC has also, on an interim basis, permitted Bell Canada to price its Bell Digital Voice

service differently on a province-wide basis in Ontario and Québec. A final decision from the CRTC regarding these tariff notices could result in a different outcome, and could therefore have a negative effect on our business and results of operations.

Forbearance from Regulation of Local Exchange Services

The CRTC conducted a public proceeding in 2005 on a framework for forbearance from the regulation of residential and business local exchange services offered by the incumbent telephone companies. The CRTC plans to issue a decision with respect to this matter in March 2006. Bell Canada's and the other incumbent telephone companies' flexibility to compete could be adversely affected in the event that the CRTC, in its decision, establishes onerous conditions to be satisfied in order for the incumbent telephone companies to obtain regulatory forbearance of residential and business local exchange services.

Price Floor Safeguards for Retail Services

On April 29, 2005, the CRTC issued its decision on price floor safeguards and related issues. A price floor safeguard is the minimum price that an incumbent telephone company can charge for regulated services.

In its decision, the CRTC made changes which, in some circumstances, may result in future higher price floors for new services and bundles that could negatively limit Bell Canada's ability to compete.

Application to Change Bundling Rules

On September 2, 2005, Bell Canada applied to the CRTC to modify the bundling rules that apply to customer-specific arrangements (CSAs).

The CRTC currently requires any CSA that includes both tariffed and non-tariffed services (Mixed CSAs) to be filed for approval with the CRTC before it can be provided to customers. Bell Canada's proposal would exempt a Mixed CSA from the bundling rules and associated tariff requirements if:

• total revenue from the CSA is higher than the price of the tariffed components of the CSA

• the CSA is not part of a practice designed to circumvent tariffs.

Bell Canada's flexibility to compete may continue to be encumbered if the proposal is not approved.

Bell Canada Proposals to Telecom Policy Review Panel

On April 11, 2005, the Minister of Industry announced the creation of the Telecom Policy Review Panel (Panel) to review Canada's telecommunications policy and regulatory framework, and make recommendations. The Government of Canada had asked the Panel to deliver a final report by the end of 2005 but the report has been delayed and it is not clear when it will be released to the public.

On August 15, 2005, Bell Canada submitted its recommendations to the Panel including a proposal for the adoption of a comprehensive 'next generation' regulatory framework that relies on market forces to the maximum extent possible to ensure the telecommunications industry's continued role as a key enabler of Canada's overall economic performance.

There can be no guarantee that the Panel will adopt any or all of Bell Canada's proposals, or that the Minister of Industry and Parliament would implement the Panel's recommendations regardless of its adoption of Bell Canada's proposals.

A number of groups have intervened to the Panel, opposing the regulatory reforms suggested by Bell Canada and advocating different reforms including significantly expanding the scope of wholesale regulation of Bell Canada's and other incumbent telephone companies' facilities. There is a risk that the Panel could follow those recommendations and propose that they be adopted by the Minister of Industry and Parliament. Implementation of the recommendations and proposals of opposing parties could have a material and negative effect on the Bell Canada companies.

Access to Bell Canada Loops for Competitor Local Exchange Carriers' Customers Served Via Remotes

On September 2, 2005, Rogers Telecom Inc. (Rogers) submitted an application requesting that the CRTC direct Bell Canada to make unbundled loops available to competitors in a timely manner in certain specified areas where Rogers is present. On October 3, 2005, Bell Canada responded to Rogers' application and explained the reasons why in some areas where competitors are present and the competitors' potential end customer is served via a Bell Canada remote, unbundled loops should not have to be provided unless Bell Canada is compensated by competitors for the costs it incurs on their behalf.

Application to Change Bundling Rules

CSAs are arrangements tailored to a particular customer's needs for the purpose of customizing the offering in terms of rate structure and levels.

Access to Bell Canada Loops for Competitor Local Exchange Carriers' Customers Served Via Remotes

Unbundled loops are transmission paths between the users' premises and the central office that are provided separately from other components.

Wireless Number Portability

The Government of Canada in its 2005 Budget announced that it intended to ask the CRTC to implement wireless number portability. Number portability enables customers to retain the same phone number when changing service provider within the same local serving area.

Licences and Changes to Wireless Regulation

Companies must have a spectrum licence to operate cellular, PCS and other radio-telecommunications systems in Canada. The Minister of Industry awards spectrum licences, through a variety of methods, at his or her discretion under the *Radiocommunication Act*.

The cost to equip Bell Canada's network in order to provide unbundled loops to competitors in locations where a potential competitor's end customer is currently served via a Bell Canada remote could be significant should the CRTC grant Rogers' request. It is anticipated that the CRTC will institute a further process to examine this matter prior to rendering a decision.

Wireless Number Portability

On December 20, 2005, the CRTC released Telecom Decision 2005-72. Among other things, the decision directed Bell Mobility, Rogers Wireless and TELUS Mobility to implement wireless number portability in Alberta, British Columbia, Ontario and Québec by March 14, 2007. This accelerated timeframe will be challenging for Bell Mobility and the rest of the wireless industry to meet. On February 6, 2006, the CRTC issued Telecom Public Notice 2006-3, *Regulatory issues related to the implementation of wireless number portability* , a proceeding that will address a wide range of issues associated with the implementation.

Licences and Changes to Wireless Regulation

While we expect that the licences under which the Bell Canada companies provide cellular and PCS services will be renewed at term, there is no assurance that this will happen. Industry Canada can revoke a company's licence at any time if the company does not comply with the licence's conditions. While we believe that we comply with the conditions of our licences, there is no assurance that Industry Canada will agree. Should there be a disagreement, this could have a material and negative effect on the Bell Canada companies.

In February 2005, Industry Canada released a report concerning its procedures for approving and placing wireless and radio towers in Canada, including the role of municipal authorities in the approval process. Among other things, the report recommends that the authority to regulate the siting of antennae and supporting structures remain exclusively with the Government of Canada. In August 2005, Industry Canada presented a revised draft policy for comment. The wireless and broadcasting industries both have a number of concerns with the draft policy and are now working with Industry Canada to attempt to resolve these concerns. It is not possible to predict at this time if or when the final policy will be issued. If the final policy requires more municipal or public consultation in the approval process, there is a risk that it could significantly slow the expansion of wireless networks in Canada. This could have a material and negative effect on the operations of the Bell Canada companies.

Revenue from Major Customers

A significant amount of revenue earned by Bell Canada's Enterprise unit comes from a small number of major customers. If we lose contracts with any of these major customers and cannot replace them, it could have a material and negative effect on our financial results.

Competition Bureau's Investigation

Concerning System Access Fees

On December 9, 2004, Bell Canada was notified by the Competition Bureau that the Commissioner of Competition had initiated an inquiry under the misleading advertising provisions of the *Competition Act* concerning Bell Mobility's description or representation of system access fees (SAFs) and was served with a court order, under section 11 of the *Competition Act*, compelling Bell Mobility to produce certain records and other information that would be relevant to the Competition Bureau's investigation. Bell Canada has complied with the court order and provided the requested information.

Bell Mobility charges monthly SAFs to its cellular subscribers to help it recover certain costs associated with its mobile communications network. These costs include maintenance costs, the cost of installing new equipment and retrofitting new technologies, and fees for spectrum licences. These costs also include the recovery of the contribution tax the CRTC charges to support telephone services in rural and remote areas of Canada.

Bell Mobility may be subject to financial penalties by way of fines, administrative monetary penalties and/or demands for restitution of a portion of the SAFs charged to cellular subscribers if it is found to have contravened the misleading advertising provisions of the *Competition Act* .

Potential Legislation Restricting In-Vehicle Use of Cellphones

Some studies suggest that using cellphones while driving may result in more motor vehicle collisions. It is possible that this could lead to new regulations or legislation banning the use of handheld cellphones while driving, as it has in Newfoundland and Labrador and in several U.S. states, or other restrictions on in vehicle use of wireless devices. If any of these happen, cellphone use in vehicles may decline, which may negatively affect the business of the Bell Canada companies.

Health Concerns About Radio Frequency Emissions

It has been suggested that some radio frequency emissions from cellphones may be linked to certain medical conditions. Interest groups have also requested investigations into claims that digital transmissions from handsets used with digital wireless technologies pose health concerns and cause interference with hearing aids and other medical devices. This could lead to additional government regulation, which could have a material and negative effect on the business of the Bell Canada companies. In addition, actual or perceived health risks of wireless communications devices could result in fewer new network subscribers, lower network usage per subscriber, higher churn rates, product liability lawsuits or less outside financing being available to the wireless communications industry. Any of these would have a negative effect on the business of the Bell Canada companies.

Bell ExpressVu

Satellites are subject to significant risks. Any loss, failure, manufacturing defects, damage or destruction of these satellites, of Bell ExpressVu's terrestrial broadcasting infrastructure, or of Telesat's tracking, telemetry and control facilities to operate the satellites, could have a material and negative effect on Bell ExpressVu's results of operations and financial condition.

Bell ExpressVu is subject to programming and carriage requirements under CRTC regulations. Changes to the regulations that govern broadcasting could negatively affect Bell ExpressVu's competitive position or the cost of providing its services. Bell ExpressVu's DTH satellite television distribution undertaking licence was renewed in March 2004 and expires on August 31, 2010. While we expect this licence will be renewed at term, there is no assurance that this will happen.

Bell ExpressVu continues to face competition from unregulated U.S. DTH satellite television services that are sold illegally in Canada. In response, it is participating in legal actions that are challenging the sale of U.S. DTH satellite television equipment in Canada. This competition could have a material and adverse impact on Bell ExpressVu's business.

Bell ExpressVu faces a loss of revenue resulting from the theft of its services. Bell ExpressVu introduced a smart card swap for its authorized digital receivers that is designed to block unauthorized reception of Bell ExpressVu's signals. As with any technology-based security system, it is not possible to eliminate with absolute certainty a compromise of that security system. As is the case for all other pay television providers, Bell ExpressVu has experienced, and continues to experience, ongoing efforts to steal its services by way of compromise of Bell ExpressVu's signal security systems.

On October 28, 2004, the Court of Québec ruled in *R. v. D'Argy and Theriault (D'Argy Case)* that the provisions in the *Radiocommunication Act* making it a criminal offence to manufacture, offer for sale or sell any device used to decode an encrypted subscription signal relating to the unauthorized reception of satellite signals violate the freedom of expression rights enshrined in the *Charter*. On March 31, 2005, the Québec Superior Court overruled the Court of Québec's decision in the *D'Argy Case* and upheld the constitutional validity of those provisions in the *Radiocommunication Act*. The defendants in the *D'Argy Case* have been granted leave to appeal the ruling of the Québec Superior Court to the Québec Court of Appeal. It remains a criminal offence throughout Canada to manufacture, offer for sale or sell any device used to engage in the unauthorized reception of satellite signals. If the ruling of the Québec Superior Court is overruled by the Québec Court of Appeal and Parliament does not enact new provisions criminalizing the unauthorized reception of satellite signals, Bell ExpressVu may face increasing loss of revenue from the unauthorized reception of satellite signals.

Bell ExpressVu

Bell ExpressVu currently uses four satellites, Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-Interim, for its video services.

Nimiq 4-Interim became operational at the end of February 2006. Telesat, a wholly-owned subsidiary of BCE Inc., operates or directs the operation of these satellites.

Please see *Risks that Could Affect Certain BCE Group Companies —Telesat* for more information on the risks relating to Telesat's satellites.

Operational Risks Due to Various Types of Potential Anomalies

Satellites utilize highly complex technology and operate in the harsh environment of space and therefore are subject to significant operational risks while in orbit. The risks include in-orbit equipment failures, malfunctions and other kinds of problems commonly referred to as anomalies.

Bell Globemedia

Dependence on Advertising

A large part of Bell Globemedia's revenue from its television and print businesses comes from advertising revenues. Bell Globemedia's advertising revenues are affected by competitive pressures, including its ability to attract and retain viewers and readers. In addition, the amount advertisers spend is directly related to economic growth. An economic downturn tends to make it more difficult for Bell Globemedia to maintain or increase revenues. Advertisers have historically been sensitive to general economic cycles and, as a result, Bell Globemedia's business, financial condition and results of operations could be materially and negatively affected by a downturn in the economy. In addition, most of Bell Globemedia's advertising contracts are short-term and the advertiser can cancel them on short notice.

Increasing Fragmentation in Television Markets

Television advertising revenue largely depends on the number of viewers and the attractiveness of programming in a given market. The viewing market has become increasingly fragmented over the past decade and this trend is expected to continue as new services and technologies increase the choices available to consumers. As a result, there is no assurance that Bell Globemedia will be able to maintain or increase its advertising revenues or its ability to reach or retain viewers with attractive programming.

Revenues from Distributing Television Services

A significant portion of revenues from CTV's specialty television operations comes from contractual arrangements with distributors who are mainly cable and DTH operators. Competition has increased in the specialty television market. As a result, there is no assurance that contracts with distributors will be renewed on equally favourable terms.

Increased Competition for Fewer Print Customers

Print advertising revenue largely depends on circulation and readership. The existence of a competing newspaper and commuter papers in Toronto and other major markets has increased competition for *The Globe and Mail*'s print operations. In addition, total circulation and readership of Canadian newspapers have continued to decline. There is increasing pressure on print profit margins resulting from more competition in print advertising rates and higher costs of operation.

Broadcast Licences and CRTC Decisions

Each of CTV's conventional and specialty services operates under licences issued by the CRTC for a fixed term of up to seven years. These licences are subject to the requirements of the *Broadcasting Act*, the policies and decisions of the CRTC, and the conditions of each licensing or renewal decision, all of which may change. While these are expected to be renewed at the appropriate times, there can be no assurance that any or all of CTV's licences will be renewed. Any renewals, changes or amendments to licences and any decisions by the CRTC from time to time that affect the industry as a whole or CTV in particular may have a material and negative effect on Bell Globemedia.

Telesat

Satellite Industry Risks

Operational Risks Due to Various Types of Potential Anomalies

Any single anomaly or series of anomalies could materially and adversely affect Telesat's operations, revenues, relationship with current customers and the ability to attract new customers for satellite services. The occurrence of anomalies may also adversely affect Telesat's ability to insure the satellites at commercially reasonable premiums, if at all.

Launch Failures

Satellites are subject to certain risks related to failed launches. Launch failures result in significant delays in the deployment of satellites because of the need to construct replacement satellites and to obtain other launch opportunities. Such significant delays could materially and adversely affect operations and revenues. Should Telesat not be able to obtain launch insurance on reasonable terms and a launch failure were to occur, Telesat would have to directly suffer the loss of the cost of the satellite and related costs.

Construction and Launch Delays

The construction and launch of satellites are subject to certain delays which can adversely affect Telesat's operations. Delays in the commencement of service could enable customers who pre-purchased transponder capacity to terminate their contracts and could affect plans to replace an in-orbit satellite prior to the end of its useful life. The failure to implement a satellite deployment plan on schedule could have a material and adverse effect on Telesat's financial condition and results of operations.

Market for Satellite Insurance

Launch and in-orbit policies on satellites may not continue to be available on commercially reasonable terms or at all. In addition to higher premiums, insurance policies may provide for higher deductibles, shorter coverage periods, higher loss percentages required for constructive total loss claims and additional satellite health-related policy exclusions.

An uninsured failure of one or more satellites could have a material and adverse effect on Telesat's financial condition and results of operations. In addition, higher premiums on insurance policies increase costs, thereby reducing earnings from operations by the amount of such increased premiums.

With respect to in-orbit satellites, Nimiq 1 is insured until the second quarter of 2006 for approximately its book value. Anik F1R is insured for approximately its book value until the third quarter of 2006. Anik F2 is insured for approximately two thirds of its book value until the third quarter of 2007. In the event of a total failure of the Anik F2 satellite, the after-tax accounting loss is estimated at $105 million to $110 million.

In 2004, Telesat ceased to insure its interest in the residual value of Nimiq 2 following the arrival in orbit of the leased satellite Nimiq 3.

In 2001, the manufacturer of the Anik F1 satellite advised Telesat of a gradual decline in power on the satellite. Telesat had insurance in place to cover the power loss on Anik F1 and filed a claim with its insurers. Telesat and its insurers reached a final settlement agreement which included an initial payment to Telesat of US$136.2 million, which has already been received, and originally called for an additional payment of US$49.1 million in 2007 if the power level on Anik F1 degrades as predicted by the manufacturer. In December 2005, Telesat entered into early settlement agreements with certain insurance underwriters, and as a result received US$26.2 million. A balance of US$20.1 million is expected to be received in 2007 if the power level on Anik F1 degrades as predicted. In the event that the power level on Anik F1 is better than predicted, the amount of the payment(s) will be adjusted by applying a formula which is included in the settlement documentation and could result in either a pro-rated payment to Telesat of the additional US$20.1 million or a pro-rated repayment of up to a maximum of US$14.9 million to be made by Telesat to the insurers. Currently, power levels are continuing to degrade as predicted.

In December 2005, Telesat placed launch and in-orbit insurance coverage, covering the launch and first year of in-orbit life, for the approximate book value of Anik F3. Anik F3 is expected to be available for service in the third quarter of 2006.

Telesat has signed contracts with EADS Astrium, SAS, a European satellite manufacturer, for construction of the Nimiq 4 satellite. As the construction contract for Nimiq 4 was recently signed and the satellite is not to be launched until 2008, Telesat has not initiated discussions for the placement of insurance.

Ground Operations Infrastructure Failures

Telesat operates primary and back-up satellite operations centres. Failures could be experienced in the necessary equipment at the primary centre, at the back-up facility, or in the communication links between these facilities and remote teleport facilities. A failure or error affecting tracking, telemetry and control operations might lead to a breakdown in the ability to communicate with one or more satellites or cause the transmission of incorrect instructions to the affected satellite(s), which could lead to a temporary or permanent degradation in satellite performance or to the loss of one or more satellites.

Business Risks and Competition

Telesat's primary business activities (broadcast, business networks and carrier services) have been largely dedicated to the Canadian domestic market. This market is characterized by increasing competition and

Market for Satellite Insurance

The price, terms and availability of insurance have fluctuated over time. Insurance availability can be affected by recent satellite failures and general conditions in the insurance industry.

Government Regulations

Telesat is subject to the regulatory authority of the Canadian government, primarily the CRTC and Industry Canada, and the national communications authorities of the countries in which it operates.

Our Accounting Policies

This section discusses key estimates and assumptions that management has made and how they affect the amounts reported in the financial statements and notes. It also describes the key changes in accounting standards and our accounting policies, and how they affect our financial statements.

We have prepared our consolidated financial statements according to Canadian GAAP. See Note 1 to the consolidated financial statements for more information about the accounting principles we used to prepare our financial statements.

rapid technological development. Telesat competes with U.S.-based operators who may have greater financial resources than Telesat and, together with Ciel Satellite Group, who received provisional authority from Industry Canada to operate a broadcast satellite, could capture a larger market share than that currently anticipated by Telesat.

Provision of services into the United States and Latin American markets is subject to certain risks such as changes in foreign government regulations and telecommunication standards, licencing requirements, tariffs, taxes and other matters. Latin American operations are also subject to risks associated with economic and social instability, regulatory and licencing restrictions, exchange controls and significant fluctua-tions in the value of foreign currencies.

Revenues from two customers represent approximately 34% of Telesat's total revenues. Telesat may have difficulty in replacing these customers should their satellite usage decrease.

Finally, the sale or lease of Ka-band capacity, which permits Telesat to provide broadband Internet access via satellite to markets that Telesat has not previously served, represents a new area of business and may or may not be adopted as Telesat expects.

Foreign Exchange Risk

A substantial portion of Telesat's capital expenditures and other expenses are in U.S. dollars. However, the currency of revenues and earnings that may be received from satellite infrastructure investments is subject to individual customer contractual arrangements. As a result Telesat may become exposed to foreign exchange differences between the infrastructure investments and the resulting revenues and earnings.

Government Regulations

There could be material and adverse effects on Telesat's business should Telesat not obtain all of the required regulatory approvals for the construction, the launch and operation of any of its future satellites, or for the orbital slots planned for these satellites, or if the licences obtained impose operational restrictions, or permit interference which could affect the use of its satellites. In addition, Telesat may not continue to coordinate the satellites successfully under procedures of the International Telecommunications Union.

The CRTC regulates Telesat's radio frequency channel service rates based on certain price ceilings. While the price ceiling levels were established based on prevailing market conditions and are above current rates for certain of Telesat's existing satellite services, there can be no assurance that these ceilings will be appropriate for services offered on any future satellites operated by Telesat in Canada.

In 1999, the U.S. State Department published amendments to the International Traffic in Arms Regulations which included satellites on the list of items requiring export permits. These provisions have constrained Telesat's access to technical information and have had a negative impact on Telesat's international consulting revenues.

OUR ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES

Under Canadian GAAP, we are required to make estimates when we account for and report assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities in our financial statements. We are also required to continually evaluate the estimates that we use.

We base our estimates on past experience and on other factors that we believe are reasonable under the circumstances. Because this involves varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

We consider the estimates described in this section to be an important part of understanding our financial statements because they rely heavily on management's judgment and are based on factors that are highly uncertain.

Our senior management has discussed the development and selection of the critical accounting estimates described in this section with the audit committee of the board of directors. The audit committee has reviewed these critical accounting estimates.

Employee Benefit Plans

We perform a valuation at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, health-care cost trends and expected average remaining years of service of employees.

While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plans cost.

We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

The two most significant assumptions used to calculate the net employee benefit plans cost are the discount rate and the expected long-term rate of return on plan assets. Each of our operating segments is affected by these assumptions.

Discount Rate

We determine the appropriate discount rate at the end of every year. Our discount rate was 5.2% at December 31, 2005, a decrease from 6.2% at December 31, 2004. The table below shows the impact on the net benefit plans cost for 2006 and the accrued benefit assets at December 31, 2006 of a 0.5% increase and a 0.5% decrease in the discount rate.

	IMPACT ON NET BENEFIT PLANS COST FOR 2006	IMPACT ON ACCRUED BENEFIT ASSETS AT DECEMBER 31, 2006
Discount rate increased to 5.7%		
Residential	(33)	33
Business	(33)	33
Aliant	(24)	24
Other Bell Canada	(10)	10
Other BCE	(6)	6
Total	(106)	106
Discount rate decreased to 4.7%		
Residential	33	(33)
Business	33	(33)
Aliant	24	(24)
Other Bell Canada	10	(10)
Other BCE	6	(6)
Total	106	(106)

Although there is no immediate impact on our balance sheet, a lower discount rate results in a higher accrued benefit obligation and a lower pension surplus. This means that we may have to increase any cash contributions to the plan.

Expected Long-Term Rate of Return

The expected long-term rate of return is a weighted average of our forward-looking view of long-term returns on each of the major plan asset categories in our funds.

We determine the appropriate expected long-term rate of return at the end of every year. We assumed an expected long-term rate of return on plan assets of 7.5% in 2005, which is the same as in 2004. The table below shows the impact on the net benefit plans cost for 2006 and the accrued benefit asset at December 31, 2006 of a 0.5% increase and a 0.5% decrease in the expected rate of return on plan assets.

	IMPACT ON NET BENEFIT PLANS COST FOR 2006	IMPACT ON ACCRUED BENEFIT ASSETS AT DECEMBER 31, 2006
Expected rate of return increased to 8.0%		
Residential	(22)	22
Business	(21)	21
Aliant	(16)	16
Other Bell Canada	(6)	6
Other BCE	(3)	3
Total	(68)	68
Expected rate of return decreased to 7.0%		
Residential	22	(22)
Business	21	(21)
Aliant	16	(16)
Other Bell Canada	6	(6)
Other BCE	3	(3)
Total	68	(68)

Although there is no immediate impact on our balance sheet, poor fund performance results in a lower fair value of plan assets and a lower pension surplus. This means that we may have to increase any cash contributions to the plan.

Employee Benefit Plans

We maintain defined benefit plans that provide pension, other retirement and post-employment benefits for some of our employees. The amounts reported in the financial statements relating to these benefits are determined using actuarial calculations that are based on several assumptions.

Discount Rate

The discount rate is the interest rate used to determine the present value of the future cash flows that we expect will be needed to settle employee benefit obligations. It is based on the yield on long-term high-quality corporate fixed income investments, with maturities matching the estimated cash flows from the plan.

Goodwill Impairment

We assess the value of goodwill of all reporting units within each of our operating segments every year and when events or changes in circumstances indicate that it might be impaired.

Contingencies

We become involved in various litigation and regulatory matters as part of our business. Each of our operating segments may be affected. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss to our business.

Goodwill Impairment

We generally measure for impairment using a projected discounted cash flow method and confirm our assessment using other valuation methods. If the asset's carrying value is more than its fair value, we record the difference as a reduction in the amount of goodwill on the balance sheet and an impairment charge in the statement of operations.

We make a number of significant estimates when calculating fair value using a projected discounted cash flow method. These estimates include the assumed growth rates for future cash flows, the number of years used in the cash flow model, the discount rate and many others.

We believe that all of our estimates are reasonable. They are consistent with our internal planning and reflect our best estimates, but they have inherent uncertainties that management may not be able to control.

Any changes in any of the estimates used could have a material impact on the calculation of the fair value and resulting impairment charge. As a result, we are unable to reasonably quantify the changes in our overall financial performance if we had used different assumptions.

We cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values we have reported.

There were no impairment charges recorded in 2005 or 2004.

Contingencies

We accrue a potential loss if we believe the loss is probable and can be reasonably estimated. We base our decision on information that is available at the time. We estimate the amount of the loss by consulting with the outside legal counsel that is handling our defence. This involves analyzing potential outcomes and assuming various litigation and settlement strategies.

If the final resolution of a legal or regulatory matter results in a judgment against us or requires us to pay a large settlement, it could have a material and negative effect on our results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. Any accrual would be charged to operating income and included in *Accounts payable and accrued liabilities* or *Other long-term liabilities* . Any cash settlement would be included in *Cash from operating activities* .

None of our operating segments had any significant provisions relating to pending litigation, regulatory initiatives or regulatory proceedings at December 31, 2005. We have not made any significant changes to our estimates in the past two years.

Income Taxes

Management believes that it has adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations, which are constantly changing. Each of our operating segments may be affected.

Our tax filings are also subject to audits, which could materially change the amount of current and future income tax assets and liabilities. Any change would be recorded as a charge or a credit to income tax expense. Any cash payment or receipt would be included in cash from operating activities.

There were no significant changes to the estimates we made in the past two years.

RECENT CHANGES TO ACCOUNTING STANDARDS

The CICA issued revisions to section 3860 of the CICA Handbook, *Financial Instruments — Disclosure and Presentation* . The revisions require financial instruments that meet specific criteria to be classified as liabilities on the balance sheet instead of as equity. Adopting this revised section on January 1, 2005 did not affect our consolidated financial statements because we do not have any instruments that meet the specific criteria.

Please see Note 1 to the consolidated financial statements for more information about the accounting policies we adopted in 2005.

FUTURE CHANGES TO ACCOUNTING STANDARDS

Comprehensive Income

The CICA issued section 1530 of the CICA Handbook, *Comprehensive Income* . The section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

• changes in the currency translation adjustment relating to self-sustaining foreign operations

• unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, *Surplus* , and reissued it as section 3251, *Equity* . The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, *Comprehensive Income* .

When we adopt these sections on January 1, 2007, we will report the following items in the consolidated financial statements:

• comprehensive income and its components

• accumulated other comprehensive income and its components.

Financial Instruments — Recognition and Measurement

The CICA issued section 3855 of the CICA Handbook, *Financial Instruments — Recognition and Measurement* . The section is effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section requires that:

• all financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity

• all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value

• all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, *Financial Instruments —Disclosure and Presentation* , which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006.

These new accounting standards are not expected to have a significant effect on our financial results in 2007.

Hedges

The CICA recently issued section 3865 of the CICA Handbook, *Hedges* . The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between:

• changes in the fair value of a hedged item and a hedging item

• changes in the cash flows attributable to a hedged item and a hedging item, or

• changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting makes sure that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period.

We do not expect the new standard to have a significant effect on our financial results in 2007.

Non-Monetary Transactions

The CICA has reissued section 3830 of the CICA Handbook as section 3831, *Non-Monetary Transactions* , which establishes standards for the measurement and disclosure of non-monetary transactions. It also includes criteria for defining 'commercial substance' which replace the criteria for defining 'culmination of the earnings process' in the former section. These changes come into effect for fiscal years beginning on or after January 1, 2006. Adopting this section on January 1, 2006 will not have a material effect on our future consolidated financial statements.

This section of our annual report contains the audited consolidated financial statements of BCE and detailed notes with explanations and additional information.

The financial statements contain our results and financial history for the past three years. The notes are an important part of understanding our financial results. They explain how we arrived at the numbers in the financial statements, describe significant events or changes that affect the numbers, and explain certain items in the financial statements. The notes also include details about our results that do not appear in the financial statements.

BCE consists of many businesses, including subsidiaries and joint ventures. We present the financial information for all of our holdings as one consolidated company.

Except in the auditors' report, *we*, *us*, *our* and *BCE* mean BCE Inc., its subsidiaries and joint ventures.

MANAGEMENT'S REPORT

These financial statements form the basis for all of the financial information that appears in this annual report.

The financial statements and all of the information in this annual report are the responsibility of the management of BCE Inc. and have been reviewed and approved by the board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities. Deloitte & Touche LLP, the shareholders' auditors, have audited the financial statements.

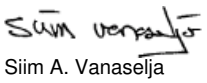
Management has prepared the financial statements according to Canadian generally accepted accounting principles. Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present BCE's consolidated financial position, results of operations and cash flows.

Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. This is supported by an internal audit group that reports to the audit committee, and includes communication with employees about policies for ethical business conduct. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

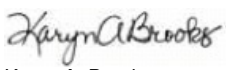
The board of directors has appointed an audit committee, which is made up of unrelated and independent directors. The audit committee's responsibilities include reviewing the financial statements and other information in this annual report, and recommending them to the board of directors for approval. You will find a description of the audit committee's other responsibilities on page 102 of this annual report. The internal auditors and the shareholders' auditors have free and independent access to the audit committee.



Michael J. Sabia
President and Chief Executive Officer



Siim A. Vanaselja
Chief Financial Officer



Karyn A. Brooks
Vice-President and Controller

January 31, 2006

AUDITORS' REPORT

To the Shareholders of BCE Inc.:

We have audited the consolidated balance sheets of BCE Inc. as at December 31, 2005 and 2004, and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of BCE Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of BCE Inc. as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005, in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants

Montréal, Canada
January 31, 2006

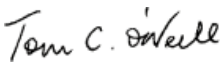
FOR THE YEAR ENDED DECEMBER 31 *(in $ millions, except share amounts)*	NOTE	**2005**	2004	2003
Operating revenues		**19,105**	18,368	18,057
Operating expenses		**(11,508)**	(10,938)	(10,776)
Amortization expense		**(3,114)**	(3,056)	(3,062)
Net benefit plans cost	24	**(380)**	(256)	(175)
Restructuring and other items	4	**(55)**	(1,224)	(14)
Total operating expenses		**(15,057)**	(15,474)	(14,027)
Operating income		**4,048**	2,894	4,030
Other income	5	**8**	407	177
Interest expense	6	**(981)**	(999)	(1,100)
Pre-tax earnings from continuing operations		**3,075**	2,302	3,107
Income taxes	7	**(893)**	(681)	(1,086)
Non-controlling interest		**(267)**	(174)	(201)
Earnings from continuing operations		**1,915**	1,447	1,820
Discontinued operations	8	**46**	77	(5)
Net earnings before extraordinary gain		**1,961**	1,524	1,815
Extraordinary gain	3	**—**	69	—
Net earnings		**1,961**	1,593	1,815
Dividends on preferred shares		**(70)**	(70)	(64)
Premium on redemption of preferred shares		**—**	—	(7)
Net earnings applicable to common shares		**1,891**	1,523	1,744
Net earnings (loss) per common share — basic	9			
Continuing operations		**1.99**	1.49	1.91
Discontinued operations		**0.05**	0.09	(0.01)
Extraordinary gain		**—**	0.07	—
Net earnings		**2.04**	1.65	1.90
Net earnings (loss) per common share — diluted	9			
Continuing operations		**1.99**	1.49	1.90
Discontinued operations		**0.05**	0.09	(0.01)
Extraordinary gain		**—**	0.07	—
Net earnings		**2.04**	1.65	1.89
Dividends per common share		**1.32**	1.20	1.20
Average number of common shares outstanding — basic (millions)		**926.8**	924.6	920.3

CONSOLIDATED STATEMENTS OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31 *(in $ millions)*	NOTE	**2005**	2004	2003
Balance at beginning of year, as previously reported		**(5,424)**	(5,837)	(6,442)
Accounting policy change	1	**(8)**	(8)	(8)
Balance at beginning of year, as restated		**(5,432)**	(5,845)	(6,450)
Consolidation of variable interest entity		**—**	—	(25)
Net earnings		**1,961**	1,593	1,815
Dividends declared on preferred shares		**(70)**	(70)	(64)
Dividends declared on common shares		**(1,222)**	(1,110)	(1,105)
Premium on redemption of preferred shares		**—**	—	(7)
Other		**—**	—	(9)
Balance at end of year		**(4,763)**	(5,432)	(5,845)

AT DECEMBER 31 *(in $ millions)*	NOTE	**2005**	2004
Assets			
Current assets			
Cash and cash equivalents		**363**	313
Accounts receivable	10	**1,766**	1,951
Other current assets	11	**1,142**	1,061
Current assets of discontinued operations	8	**402**	383
Total current assets		**3,673**	3,708
Capital assets	12	**22,062**	21,104
Other long-term assets	13	**2,914**	2,628
Indefinite-life intangible assets	14	**3,031**	2,916
Goodwill	15	**7,887**	7,756
Non-current assets of discontinued operations	8	**1,063**	1,028
Total assets		**40,630**	39,140
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	**3,435**	3,444
Interest payable		**182**	183
Dividends payable		**343**	297
Debt due within one year	17	**1,373**	1,272
Current liabilities of discontinued operations	8	**281**	271
Total current liabilities		**5,614**	5,467
Long-term debt	18	**12,119**	11,685
Other long-term liabilities	19	**5,028**	4,834
Non-current liabilities of discontinued operations	8	**250**	222
Total liabilities		**23,011**	22,208
Non-controlling interest	20	**2,898**	2,908
Commitments and contingencies	25		
Shareholders' Equity			
Preferred shares	22	**1,670**	1,670
Common shareholders' equity			
Common shares	22	**16,806**	16,781
Contributed surplus		**1,081**	1,061
Deficit		**(4,763)**	(5,432)
Currency translation adjustment		**(73)**	(56)
Total common shareholders' equity		**13,051**	12,354
Total shareholders' equity		**14,721**	14,024
Total liabilities and shareholders' equity		**40,630**	39,140

On behalf of the board of directors:





Director *Director*

FOR THE YEAR ENDED DECEMBER 31 *(in $ millions)*	NOTE	**2005**	2004	2003
Cash flows from operating activities				
Earnings from continuing operations		**1,915**	1,447	1,820
Adjustments to reconcile earnings from continuing operations to cash flows from operating activities:				
Amortization expense		**3,114**	3,056	3,062
Net benefit plans cost	24	**380**	256	175
Restructuring and other items	4	**55**	1,224	14
Net gains on investments	5	**(33)**	(320)	(76)
Future income taxes	7	**746**	(35)	409
Non-controlling interest		**267**	174	201
Contributions to employee pension plans	24	**(226)**	(112)	(160)
Other employee future benefit plan payments	24	**(93)**	(81)	(87)
Payments of restructuring and other items		**(176)**	(253)	(124)
Operating assets and liabilities	27	**(390)**	87	656
Cash flows from operating activities		**5,559**	5,443	5,890
Cash flows from investing activities				
Capital expenditures		**(3,428)**	(3,319)	(3,101)
Business acquisitions	3	**(228)**	(1,118)	(54)
Business dispositions		**—**	20	54
Increase in investments		**(233)**	(58)	(4)
Decrease in investments		**19**	713	168
Other investing activities		**4**	127	62
Cash flows used in investing activities		**(3,866)**	(3,635)	(2,875)
Cash flows from financing activities				
Increase (decrease) in notes payable and bank advances		**(66)**	130	(295)
Issue of long-term debt		**1,190**	1,306	1,880
Repayment of long-term debt		**(1,178)**	(2,256)	(3,412)
Issue of common shares	22	**25**	32	19
Issue of preferred shares	22	**—**	—	510
Redemption of preferred shares	22	**—**	—	(357)
Issue of equity securities by subsidiaries to non-controlling interest		**1**	8	132
Redemption of equity securities by subsidiaries from non-controlling interest		**(78)**	(58)	(108)
Cash dividends paid on common shares		**(1,195)**	(1,108)	(1,029)
Cash dividends paid on preferred shares		**(86)**	(85)	(61)
Cash dividends paid by subsidiaries to non-controlling interest		**(192)**	(188)	(184)
Other financing activities		**(64)**	(81)	(44)
Cash flows used in financing activities		**(1,643)**	(2,300)	(2,949)
Cash provided by (used in) continuing operations		**50**	(492)	66
Cash provided by discontinued operations		**15**	150	350
Net increase (decrease) in cash and cash equivalents		**65**	(342)	416
Cash and cash equivalents at beginning of year		**380**	722	306
Cash and cash equivalents at end of year		**445**	380	722
Consists of:				
Cash and cash equivalents of continuing operations		**363**	313	556
Cash and cash equivalents of discontinued operations		**82**	67	166
Total		**445**	380	722

All amounts are in millions of Canadian dollars, except where noted.

See Note 28, *Reconciliation of Canadian GAAP to United States GAAP* , for a description and reconciliation of the significant differences between Canadian GAAP and United States GAAP that affect our financial statements.

NOTE 1:
SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

We have prepared the consolidated financial statements according to Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all of the companies we control. We proportionately consolidate our share of the financial statements of our joint venture interests. All transactions and balances between these companies have been eliminated on consolidation.

COMPARATIVE FIGURES

We have reclassified some of the figures for the comparative periods in the consolidated financial statements to make them consistent with the presentation for the current period.

We have restated financial information for previous periods to reflect:

• the change in Aliant Inc.'s (Aliant) method of recognizing revenues and expenses from its directory business effective January 2005, as described under *Recent Changes to Accounting Policies and Standards*

• the change in classification to discontinued operations for planned and completed business dispositions.

USING ESTIMATES

When preparing financial statements according to GAAP, management makes estimates and assumptions relating to:

• reported amounts of revenues and expenses

• reported amounts of assets and liabilities

• disclosure of contingent assets and liabilities.

We base our estimates on a number of factors, including historical experience, current events and actions that the company may undertake in the future, and other assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions. We use estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of capital assets, asset impairments, inventory reserves, legal and tax contingencies, employee compensation plans, employee benefit plans, evaluation of minimum lease terms for operating leases, income taxes and goodwill impairment. We also use estimates when recording the fair values of assets acquired and liabilities assumed in a business combination.

RECOGNIZING REVENUE

We recognize operating revenues when they are earned, specifically when all the following conditions are met:

• services are provided or products are delivered to customers

• there is clear evidence that an arrangement exists

• amounts are fixed or can be determined

• our ability to collect is reasonably assured.

In particular, we recognize:

• fees for long distance and wireless services when we provide the services

• other fees, such as network access fees, licence fees, hosting fees, maintenance fees and standby fees, over the term of the contract

• subscriber revenues when customers receive the service

• advertising revenues when advertisements are aired, or printed and distributed

• revenues from the sale of equipment when the equipment is delivered to customers and accepted

• revenues on long-term contracts as services are provided, equipment is delivered and accepted, or contract milestones are met

• rebates, allowances and payments to customers as a reduction of revenue when we do not receive an identifiable and separate benefit.

We enter into sales that may include a number of products and services. We separate each product or service in these sales and account for them separately according to the methods described above when the following three conditions are met:

• the product or service has value to our customer on a stand-alone basis

• there is objective and reliable evidence of the fair value of the product or service

• a general right of return, delivery or performance of any undelivered product or service is probable and substantially in our control.

If there is objective and reliable evidence of fair value for all products and services in a sale, the total price to the customer is allocated to the separate products and services based on their relative fair value. Otherwise, we first allocate the total price to any undelivered

products and services based on their fair value and the remainder to any that have been delivered. If the conditions to separate the product or service are not met, we generally recognize revenue pro-rata over the term of thesale agreement.

We may enter into arrangements with subcontractors who provide services to our customers. When we act as the principal in these arrangements, we recognize revenue based on the amounts billed to customers. Otherwise, we recognize the net amount that we keep as revenue.

We accrue an estimated amount for sales returns, based on our past experience, when revenue is recognized.

We record payments we receive in advance, including upfront non-refundable payments, as deferred revenues until we provide the service or deliver the product to customers. Deferred revenues are presented in *Accounts payable and accrued liabilities* or in *Other long-term liabilities* on the balance sheet.

CASH AND CASH EQUIVALENTS

We classify highly liquid investments with a maturity of three months or less from the date of purchase as *Cash and cash equivalents*. Highly liquid investments with a maturity of more than three months are classified as short-term investments and reported in *Other current assets*.

SECURITIZATION OF ACCOUNTS RECEIVABLE

We consider a transfer of accounts receivable to be a sale when we give up control of them in exchange for proceeds from a trust (other than our retained beneficial interest in the accounts receivable).

We determine the fair value of the accounts receivable transferred based on the present value of future expected cash flows, which we project using management's best estimates of discount rates, the weighted average life of accounts receivable, credit loss ratios and other key assumptions. We recognize a loss on this kind of transaction, which we record in *Other income*. The loss partly depends on the carrying amount of the accounts receivable that are transferred. We allocate this amount to accounts receivable sold or to our retained interest, according to its relative fair value on the day the transfer is made.

We continue to service the accounts receivable after the transfer. As a result, we:

- recognize a servicing liability on the day accounts receivable are transferred to the trust
- amortize this liability to earnings over the expected life of the transferred accounts receivable.

INVENTORIES

We value inventories at cost or market value, whichever is lower, and determine market value using replacement cost. We maintain inventory valuation reserves for inventory that is slow moving or becomes obsolete, using an inventory aging analysis to calculate the amount of the reserves.

CAPITAL ASSETS

We carry capital assets at cost, less accumulated amortization. Most of our telecommunications assets are amortized using the group depreciation method. When we retire assets in the ordinary course of business, we charge their original cost to accumulated amortization. In general, we amortize capital assets on a straight-line basis over the estimated useful lives of the assets. We review the estimates of the useful lives of the assets every year and adjust them if needed.

	ESTIMATED USEFUL LIFE
Telecommunications assets	10 to 25 years
Machinery and equipment	2 to 20 years
Buildings	10 to 40 years
Satellites	10 to 15 years
Finite-life intangible assets:	
Software	3 to 7 years
Customer relationships	5 to 40 years

We initially measure and record asset retirement obligations at fair value using a present value methodology, adjusted subsequently for any changes to the timing or amount of the original estimate of cash flows. We capitalize asset retirement costs as part of the related assets and amortize these into earnings over time, along with the increase in the recorded obligation to reflect the passage of time.

We capitalize construction costs, labour and overhead (including interest, when the project cost is significant) related to assets we build or develop.

Equity Method

The investment is initially recorded at cost and adjustments are made to include our share of the net earnings or losses. These adjustments are included in our net earnings. The amount of our investment is reduced by any dividends received or receivable from the investment.

Cost Method

The investment is recorded at cost. Dividends received or receivable from the investment are included in our net earnings, with no adjustment to the carrying amount of the investment.

Goodwill

Goodwill is created when we acquire a business. It is calculated by deducting the fair value of the net assets acquired from the consideration given and represents the value of factors that contribute to greater earning power, such as a good reputation, customer loyalty or intellectual capital.

Translation of Foreign Currencies

The way we account for a foreign operation depends on whether it is self-sustaining or integrated. A self-sustaining foreign operation is largely independent of the parent company. An integrated foreign operation depends on the parent company to finance or run its operations.

We capitalize certain costs of developing or buying software for internal use. We expense software maintenance and training costs when they are incurred. The expense is included in *Operating expenses* in the statement of operations.

We assess capital assets for impairment when events or changes in circumstances indicate that we may not be able to recover their carrying value. We calculate impairment by deducting the assets' fair value, based on discounted cash flows expected from their use and disposition, from their carrying value. Any excess is deducted from earnings.

We account for leases that transfer substantially all of the benefits and risks of ownership of property to us as capital leases. We record an asset at the time a capital lease is entered into together with a related long-term obligation. Rental payments under operating leases are expensed as incurred.

ACCOUNTING FOR INVESTMENTS

We use the following methods to account for investments that are not consolidated or proportionately consolidated in our financial statements:

• the equity method for our investments in companies where we have a significant influence over their operating, investing and financing activities

• the cost method for our investments in all other companies.

We expense any decline in the fair value of our investments below their carrying value when management assesses the decline to be other than temporary.

We include investments in *Other long-term assets* on the balance sheet. Earnings from investments and any declines in fair value are included in *Other income* in the statement of operations.

COSTS OF ISSUING DEBT AND EQUITY

The costs of issuing debt are deferred in *Other long-term assets*. They are amortized on a straight-line basis over the term of the related debt and are included in *Interest expense* in the statement of operations. The costs of issuing equity are reflected in the statement of deficit.

INDEFINITE-LIFE INTANGIBLE ASSETS

Our indefinite-life intangible assets consist mainly of the Bell brand name, spectrum licences and television licences. We assess these assets for impairment in the fourth quarter of every year and when events or changes in circumstances indicate that an asset might be impaired. We calculate impairment by deducting the asset's the fair value, based on estimates of discounted future cash flows or other valuation methods, from their carrying value. Any excess is deducted from earnings.

GOODWILL

We assess goodwill of individual reporting units for impairment in the fourth quarter of every year and when events or changes in circumstances indicate that goodwill might be impaired. We assess goodwill for impairment in two steps:

• we identify a potential impairment by comparing the fair value of a reporting unit to its carrying value. Fair value is based on estimates of discounted future cash flows or other valuation methods. When the fair value of the reporting unit is less than its carrying value, we allocate the fair value to all of its assets and liabilities, based on their fair values. The amount that the fair value of the reporting unit exceeds the total of the amounts assigned to its assets and liabilities is the fair value of goodwill.

• we determine if there is an impairment by comparing the carrying value of goodwill to its fair value. Any excess is deducted from earnings.

TRANSLATION OF FOREIGN CURRENCIES

Self-Sustaining Foreign Operations

For self-sustaining foreign operations, we use:

• the exchange rates on the date of the balance sheet for assets and liabilities

• the average exchange rates during the year for revenues and expenses.

Translation exchange gains and losses are reflected as a currency translation adjustment in shareholders' equity. When we reduce our net

investment in a self-sustaining foreign operation, we recognize a portion of the currency translation adjustment in earnings.

Integrated Foreign Operations

For integrated foreign operations, we use:

• the exchange rates on the date of the balance sheet for monetary assets and liabilities, such as cash, accounts receivable and payable, and long-term debt

• the historical exchange rates for non-monetary assets and liabilities, such as capital assets

• the average exchange rates during the year for revenues and expenses.

Translation exchange gains and losses are included in *Other income* in the statement of operations.

Domestic Transactions and Balances in Foreign Currencies

For domestic transactions in foreign currencies, we use:

• the exchange rates on the date of the balance sheet for monetary assets and liabilities

• the historical exchange rates for non-monetary assets and liabilities

• the average exchange rates during the year for revenues and expenses.

Translation exchange gains and losses are included in *Other income* in the statement of operations.

DERIVATIVE FINANCIAL INSTRUMENTS

We use various derivative financial instruments to manage:

• interest rate risk

• foreign exchange rate risk

• changes in the price of BCE I nc. common shares relating to special compensation payments (SCPs) and deferred share units (DSUs).

We do not use derivative financial instruments for speculative or trading purposes.

We document all relationships between derivatives and the items they hedge, and our risk management objective and strategy for using various hedges. This process includes linking every derivative to:

• a specific asset or liability, or

• a specific firm commitment, or

• an anticipated transaction.

We assess how effective derivatives are in managing risk when the hedge is put in place, and on an ongoing basis. If a hedge becomes ineffective, we stop using hedge accounting.

We follow these policies when accounting for derivatives:

• unrealized gains or losses relating to derivatives that qualify for hedge accounting are recognized in earnings when the hedged item is disposed of or when the anticipated transaction is ended early

• gains and losses related to hedges of anticipated transactions are recognized in earnings or are recorded as adjustments of carrying values when the transaction takes place

• derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value. We record the change in fair value in earnings.

• any premiums paid for derivatives used in hedging relationships are deferred and expensed to earnings over the term of the contract

• any forward premiums or discounts on forward foreign exchange contracts that are used to hedge long-term debt denominated in foreign currencies are amortized as an adjustment to interest expense over the term of the forward contract.

The following describes our policies for specific kinds of derivatives.

Interest Rate Swap Agreements

We use interest rate swap agreements to help manage the fixed and floating interest rate mix of our debt portfolio. These agreements often involve exchanging interest payments without exchanging the notional principal amount that the payments are based on. We record the exchange of payments as an adjustment of interest expense on the hedged debt. We include the related amount receivable or payable from counterparties in *Accounts receivable* or *Interest payable*

We have interest rate swaption agreements which, if exercised, result in us entering into an interest rate swap.

Foreign Currency Swap Agreements

We use foreign currency swap agreements to manage the foreign exchange rate exposure of some of our debt that is denominated in foreign currencies. We designate these agreements as hedges of firm commitments to pay interest and/or principal in the foreign currency. We recognize gains and losses on these contracts at the same time we recognize the gains and losses on the hedged item. Unrealized gains or losses are included in *Other long-term assets* or *Other long-term liabilities*.

Curtailment

A curtailment is a significant reduction in plan benefits that can result when a DB pension plan is amended or restructured. Types of curtailments include a reduction in the expected number of years of future service of active employees or the elimination of the right to earn defined benefits for some or all of the future service of employees.

Settlement

A company makes a settlement when it substantially settles all or part of an accrued benefit obligation. An example is a lump-sum cash payment to employees in exchange for their rights to receive future benefits.

Forward Contracts

We use forward foreign exchange contracts to manage:

• interest and principal denominated in foreign currencies. We designate these agreements as hedges of firm commitments to pay the principal in the foreign currency.

• the exposure to anticipated transactions denominated in foreign currencies. We designate these agreements as hedges of future cash flows.

We use forward contracts to manage changes in the price of BCE Inc. common shares relating to SCPs and DSUs.

We recognize gains and losses on these contracts the same way we recognize the gains and losses on the hedged item. Unrealized gains or losses are included in *Other long-term assets* or *Other long-term liabilities*.

EMPLOYEE BENEFIT PLANS

(i) Defined Benefit Plans

We maintain defined benefit (DB) plans that provide pension benefits for most of our employees. Benefits are based on the age rate of pay during his or her last five years of service. Most employees are not required to contribute to the plans. The plans provide increasing pension benefits to help protect a portion of the income of retired employees against inflation.

We are responsible for adequately funding our DB pension plans. We make contributions to them based on various actuarial cost methods that are permitted by pension regulatory bodies. Contributions reflect actuarial assumptions about future investment returns, salary projections and future service.

We also provide other post-employment benefits to some of our employees, including:

• health-care and life insurance benefits during retirement

• other benefits, including various disability plans,workers' or inactive employees, their beneficiaries and dependants, from the time their employment ends until their retirement starts, under certain circumstances.

We do not fund the other future benefit plans.

We accrue our obligations and related costs under employee benefit plans, net of the fair value of plan assets. Pension and other retirement benefit costs are determined using:

• the projected benefit method, prorated on years of service, which takes into account future pay levels

• a discount rate based on market interest rates of high-quality corporate bonds with maturities that match the timing and benefits expected to be paid by the plans

• management's best estimate of the plans' expected investment performance, pay increases, retirement ages of employees and expected health-care costs.

We value pension plan assets at fair value, which is determined using current market values. We use a market-related value to calculate the expected return on plan assets. This value is based on a four-year weighted average of the fair value of the pension plan assets.

We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment. This represents the period that we expect to realize economic benefits from the amendments.

Transitional assets and obligations that arose upon implementation of new accounting standards for employee future benefits are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans.

We use the corridor approach to recognize actuarial gains and losses into earnings. First we deduct 10% of the benefit obligation or the market-related value of plan assets, whichever is greater, from the unamortized net actuarial gains or losses based on a market-related value basis. Then we amortize any excess over the average remaining service period of active employees. At the end of 2005, this period ranged from approximately 9 to 18 years, with a weighted average period of 13 years.

When the restructuring of a benefit plan results in both a curtailment and a settlement of obligations, we account for the curtailment before we account for the settlement.

December 31 is the measurement date for most of our employee benefit plans. Our actuaries perform a valuation at least every three years to determine the

actuarial present value of the accrued pension and other retirement benefits. An actuarial valuation was last performed on most of our pension plans on December 31, 2004.

(ii) Defined Contribution Plans

Some of our subsidiaries offer defined contribution (DC) plans that provide certain employees with pension benefits.

In January 2005, BCE Inc. and Bell Canada introduced a DC pension plan for its employees. Current employees had the option of retaining their DB coverage or changing over to the new DC coverage. Since 2005, new employees participate in the DC pension arrangements only.

We recognize a pension cost for DC plans when the employee provides service to the company, essentially coinciding with our cash contributions. The pension cost is based on a percentage of the participant's salary.

INCOME TAXES

Current income tax expense is the estimated income taxes payable for the current year before any refunds or the use of losses incurred in previous years.

We use the asset and liability method to account for future income taxes. Future income taxes reflect:

• the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes, on an after-tax basis

• the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

We calculate future income taxes using the rates enacted by tax law and those substantively enacted. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

SUBSCRIBER ACQUISITION COSTS

We expense all subscriber acquisition costs when services are activated.

STOCK-BASED COMPENSATION PLANS

BCE Inc's stock-based compensation plans include employee savings plans (ESPs), restricted share units (RSUs), long-term incentive plans and DSUs. Before 2000, the long-term incentive plans often included SCPs.

Starting in 2004, we made a number of prospective changes to the key features of our stock-based compensation plans, including:

• the value of the long-term incentive plans under which stock options are granted was reduced to account for the introduction of a new mid-term incentive plan that uses RSUs

• setting specific performance targets that must be met before the stock option can be exercised.

We credit to share capital any amount employees pay when they exercise their stock options or buy shares. We recognize the contributions BCE Inc. makes under ESPs as compensation expense. We also recognize compensation expense or recovery relating to SCPs.

Restricted Share Units

For each RSU granted we record a compensation expense that equals the market value of a BCE Inc. common share at the date of grant prorated over the vesting period. The compensation expense is adjusted for subsequent changes in the market value of BCE Inc. common shares until the vesting date and management's of the number of RSUs that will vest in the future. The cumulative effect of the change in value is recognized in the period of the change. Vested RSUs will be paid in BCE Inc. common shares purchased on the open market or in cash, as the holder chooses, as long as minimum share ownership requirements are met.

Stock Options

We use the fair value-based method to account for employee stock options and the Black-Scholes option pricing model to measure the compensation expense of options. This method is used for options granted on or after January 1, 2002. For options that contain specific performance-based targets, this is reflected in the calculation of the weighted average fair value per option granted.

Black-Scholes Option Pricing Model

The Black-Scholes option pricing model is a financial model we use to calculate the weighted average fair value of a stock option granted using four key assumptions: stock dividend yield, expected stock volatility, risk-free interest rate and expected life of the stock option.

Deferred Share Units

For each DSU granted we record a compensation expense that equals the market value of a BCE Inc. common share at the grant date. The compensation expense is adjusted for subsequent changes in the market value of BCE Inc. common shares, with the effect of this change in value recognized in the period of the change. DSUs are paid in BCE Inc. common shares purchased on the open market following the cessation of a director leaves the board.

REGULATION OF THE TELECOMMUNICATIONS INDUSTRY

Our business is affected by Canadian Radio-Television and Telecommunications Commission (CRTC) decisions over the prices we charge for specific services, primarily local telephone services and other operating requirements. The CRTC ensures that Canadians have access to reliable telephone and other services at affordable prices. Some of our subsidiaries, such as Bell Canada, Aliant, Télébec Limited Partnership (Télébec) and NorthernTel Limited Partnership (NorthernTel), are regulated by the CRTC pursuant to the *Telecommunications Act*.

RECENT CHANGES TO ACCOUNTING POLICIES AND STANDARDS

Aliant's Directory Business

Effective January 1, 2005, we defer and amortize revenues and expenses from Aliant's directory business over the period of circulation, which is usually 12 months. Prior to January 1, 2005, we recognized revenues and expenses from on the publication date. The impact on our consolidated statements of operations for the year ended December 31, 2005 and the comparative periods is negligible. We did not restate the statements of operations for prior periods. At December 31, 2004, the restatement of the balance sheet resulted in:

- a decrease of $23million in accounts receivable
- an increase of $1million in other current assets
- a decrease of $8 million in accounts payable and accrued liabilities
- a decrease of $6 million in non-controlling interest
- an increase of $8 million in the deficit.

Financial Instruments

The CICA issued revisions to section 3860 of the CICA Handbook, *Financial Instruments — Disclosure and Presentation* . The revisions require financial instruments that meet specific criteria to be classified as liabilities on the balance sheet instead of equity. Adopting this revised section on January 1, 2005 did not affect our consolidated financial statements because we do not have any instruments that meet the specific criteria.

FUTURE CHANGES TO ACCOUNTING STANDARDS

Comprehensive Income

The CICA issued section 1530 of the CICA Handbook, *Comprehensive Income*, which describes how to report and disclose comprehensive income and its components. These changes come into effect for fiscal years beginning on or after October 1, 2006.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

- changes in the currency translation adjustment relating to self-sustaining foreign operations
- unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, *Surplus*, and reissued it as section 3251, *Equity*. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, *Comprehensive Income*.

When we adopt these sections on January 1, 2007, we will report the following items in the consolidated financial statements:

- comprehensive income and its components
- accumulated other comprehensive income and its components.

Financial Instruments

The CICA issued section 3855 of the CICA Handbook, *Financial Instruments — Recognition and Measurement*, which describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. These changes come into effect for fiscal years beginning on or after October 1, 2006. This section requires that:

• all financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held to maturity

• all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value.

• all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, *Financial Instruments —Disclosure and Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006. These new accounting standards are not expected to have a significant effect on our financial results in 2007.

Hedges

The CICA issued section 3865 of the CICA Handbook, *Hedges*, which describes how and when hedge accounting can be used. These changes come into effect for fiscal years beginning on or after October 1, 2006 .

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between:

• changes in the fair value of a hedged item and a hedging item, or

• changes in the cash flows attributable to a hedged item and a hedging item, or

• changes resulting from a risk exposure related to a hedged item and a hedging item.

Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period.

We do not expect the new standard to have a significant effect on our financial results in 2007.

Non-Monetary Transactions

The CICA has reissued section 3830 of the CICA Handbook as section 3831, *Non-Monetary Transactions*, which establishes standards for the measurement and disclosure of non-monetary transactions. It also includes criteria for defining 'commercial substance' that replace the criteria for defining 'culmination of the earnings process' in the former section. These changes come into effect for fiscal years beginning on or after January 1, 2006. Adopting this section on January 1, 2006 will not have a material effect on our future consolidated financial statements.

NOTE 2: SEGMENTED INFORMATION

We report our results of operations under five segments: *Residential* (formerly known as the *Consumer* segment), *Business*, *Aliant*, *Other Bell Canada* and *Other BCE*. Our segments reflect how we manage our business and how we classify our operations for planning and measuring performance.

The Residential segment provides local telephone, long distance, wireless, Internet access, video and other services to Bell canada's residential customers, mainly in Ontario and Québec. Wireless services are also offered in Western Canada and video services are provided nationwide.

The Business segment provides local telephone, long distance, wireless, data (including Internet access) and other services to Bell canada's small and medium-sized businesses and large enterprise customers in Ontario and Québec, as well as business customers in Western Canada.

The Aliant segment provides local telephone, long distance, wireless, data (including Internet access) and other services to residential and business customers in Atlantic Canada, and represents the operations of our subsidiary, Aliant. At December 31, 2005, Bell Canada owned 53% of Aliant. The remaining 47% was publicly held.

The accounting policies used by the segments are the same as those we describe in Note 1, *Significant Accounting Policies*. Segments negotiate sales with each other as if they were unrelated parties.

We measure the profitability of each segment based on its operating income.

Our operations, including most of our revenues, capital assets and goodwill, are located in Canada.

The Other Bell Canada segment includes Bell Canada's Wholesale business and the financial results of Télébec, NorthernTel and Northwestel. Our Wholesale business provides local telephone, long distance, wireless, data and other services to competitors who resell these services. Télébec, NorthernTel and Northwestel provide telecommunications services to less populated areas of Québec, Ontario and canada's northern territories. At December 31, 2005, Bell Canada owned 100% of Northwestel and 63% of Télébec and NorthernTel. The Bell Nordiq Income Fund owned the remaining 37%.

The Other BCE segment includes the financial results of our media and satellite businesses as well as the costs incurred by our corporate office. This segment includes Bell Globemedia Inc. (Bell Globemedia) and Telesat Canada (Telesat).

Bell Globemedia provides information and entertainment services to Canadian customers and access to distinctive Canadian content. It includes CTV Inc. (CTV), and *The Globe and Mail.* BCE Inc. owns 68.5% of Bell Globemedia. The Woodbridge Company Limited and affiliates own the remaining 31.5%. On December 2, 2005,BCE Inc. announced its decision to reduce its interest in Bell Globemedia to 20%, contingent on regulatory approval. Since we will have a continuing interest in Bell Globemedia, it is not presented as a discontinued operation.

Telesat provides satellite communications and systems management and is a consultant in establishing, operating and upgrading satellite systems worldwide. BCE Inc. owns 100% of Telesat.

In classifying our operations for planning and measuring performance, all restructuring and other items at Bell Canada and its subsidiaries except for Aliant are included in the Other Bell Canada segment and not allocated to the Residential or Business segments.

The tables below are a summary of financial information by segment for the last three years.

	RESIDENTIAL	BUSINESS	ALIANT	OTHER BELL CANADA	INTER-SEGMENT ELIMINATIONS - BELL CANADA	BELL CANADA	OTHER BCE	INTER-SEGMENT ELIMINATIONS - OTHER	CONSOLIDATED
For the year ended December 31, 2005									
Operating revenues									
External customers	**7,527**	**5,965**	**1,958**	**1,768**	**—**	**17,218**	**1,887**	**—**	**19,105**
Inter-segment	**72**	**155**	**139**	**190**	**(524)**	**32**	**206**	**(238)**	**—**
Total operating revenues	**7,599**	**6,120**	**2,097**	**1,958**	**(524)**	**17,250**	**2,093**	**(238)**	**19,105**
Operating income	**2,001**	**910**	**396**	**448**	**—**	**3,755**	**293**	**—**	**4,048**
Other income									**8**
Interest expense									**(981)**
Income taxes									**(893)**
Non-controlling interest									**(267)**
Earnings from continuing operations									**1,915**
Segment assets	**14,405**	**12,319**	**3,681**	**3,785**	**—**	**34,190**	**6,440**	**—**	**40,630**
Investments at equity	**—**	**—**	**—**	**—**	**—**	**—**	**89**	**—**	**89**
Capital expenditures	**(1,519)**	**(897)**	**(363)**	**(343)**	**—**	**(3,122)**	**(306)**	**—**	**(3,428)**

	RESIDENTIAL	BUSINESS	ALIANT	OTHER BELL CANADA	INTER-SEGMENT ELIMINATIONS –BELL CANADA	BELL CANADA	OTHER BCE	INTER-SEGMENT ELIMINATIONS –OTHER	CONSOLIDATED
For the year ended December 31, 2004									
Operating revenues									
External customers	7,440	5,652	1,894	1,736	—	16,722	1,646	—	18,368
Inter-segment	62	199	139	203	(538)	65	196	(261)	—
Total operating revenues	7,502	5,851	2,033	1,939	(538)	16,787	1,842	(261)	18,368
Operating income (loss)	2,119	896	268	(588)	—	2,695	199	—	2,894
Other income									407
Interest expense									(999)
Income taxes									(681)
Non-controlling interest									(174)
Earnings from continuing operations									1,447
Segment assets	12,965	11,764	3,685	4,533	—	32,947	6,193	—	39,140
Investments at equity	—	—	—	4	—	4	106	—	110
Capital expenditures	(1,371)	(1,008)	(295)	(352)	—	(3,026)	(293)	—	(3,319)
For the year ended December 31, 2003									
Operating revenues									
External customers	7,142	5,564	1,909	1,868	—	16,483	1,574	—	18,057
Inter-segment	61	263	150	147	(490)	131	187	(318)	—
Total operating revenues	7,203	5,827	2,059	2,015	(490)	16,614	1,761	(318)	18,057
Operating income	2,019	781	415	621	—	3,836	194	—	4,030
Other income									177
Interest expense									(1,100)
Income taxes									(1,086)
Non-controlling interest									(201)
Earnings from continuing operations									1,820
Segment assets	13,321	11,648	3,840	4,698	—	33,507	5,895	—	39,402
Investments at equity	—	—	—	398	—	398	98	—	496
Capital expenditures	(1,287)	(936)	(333)	(336)	—	(2,892)	(209)	—	(3,101)

NOTE 3: BUSINESS ACQUISITIONS

The consolidated statements of operations include the results of acquired businesses from the date they were purchased.

We made a number of business acquisitions in 2005, including:

• *NR Communications Ltd. (NR Communications)* — In February and November 2005, Bell Canada acquired 100% of the outstanding shares of NR Communications, which holds a 50% ownership in Inukshuk, a joint venture entered into with Rogers Communications Inc. to provide wireless broadband services.

• *Nexxlink Technologies Inc. (Nexxlink)* — In February 2005, Bell Canada acquired 100% of the outstanding shares of Nexxlink, a provider of integrated IT solutions.

Of the goodwill acquired in 2005 :

• $90 million relates to the Business segment, $23 million relates to the Residential segment, $11 million relates to the Other Bell Canada segment and $7 million relates to the Other BCE segment

• $43 million is deductible for tax purposes.

Infostream is a systems and storage technology firm that provides networking solutions for voice over Internet protocol (VoIP), storage area networks and network management.

Charon is a full-service IT solutions provider that specializes in server-based computing, systems integration, IT security, software development and IT consulting.

Elix offers technology consulting, integration and implementation of call routing and management systems, IT application integration, and design and implementation of electronic voice-driven response systems.

We made the following business acquisitions in 2004 :

• *Canadian operations of 360 networks Corporation (360 networks)* — In November 2004 , Bell Canada acquired the Canadian operations of 360 networks, a telecommunications service provider. The purchase included the shares of 360 networks' Subsidiary GT Group Telecom Services Corporation and certain related interconnected U.S. network assets. Following the purchase, Bell Canada sold the retail customer operations in Central and Eastern Canada to Call-Net Enterprises Inc. (Call-Net). For a share of the revenues, Bell Canada now provides network facilities and other operations and support services to Call-Net so it can service its new customer base. The fair value of the net assets acquired exceeded the purchase price. For accounting purposes, the excess was eliminated by:

— reducing the amounts assigned to the acquired non-monetary assets to nil

— recognizing the balance of $69 million as an extraordinary gain in our consolidated statement of operations.

• *DownEast Mobility Limited (DownEast)* — In October 2004 , Aliant acquired 100% of the outstanding shares of DownEast, a communication solutions retailer.

• *Bell West* — In August 2004, Bell Canada acquired Manitoba Telecom Services Inc.'s (MTS) 40% interest in Bell West. Bell Canada now owns 100% of Bell West.

• *Infostream Technologies Inc. (Infostream)* — In May 2004, Bell Canada acquired 100% of the outstanding shares of Infostream.

• *Charon Systems Inc. (Charon)*— In May 2004, Bell Canada acquired 100% of the assets of Charon.

• *Elix Inc. (Elix)* — In March 2004, Bell Canada acquired subsidiary 75.8% of the outstanding shares of Elix.

• *Accutel Conferencing Systems Inc. (Canada) and Accutel Conferencing Systems Corp. (U.S.) (collectively Accutel)* —In February 2004 , Bell Canada acquired 100% of the outstanding shares of Accutel, which provides teleconferencing services.

Of the goodwill acquired in 2004:

• $451 million relates to the Business segment, $4 million relates to the Residential segment, $31 million relates to the Aliant segment, and $75 million relates to the Other Bell Canada segment

• $18 million is deductible for tax purposes.

The following tables provide a summary of all business acquisitions made in 2005 and 2004. The purchase price allocation for all 2005 acquisitions includes certain estimates. The final purchase price allocation for each business acquisition will be completed within 12 months of the acquisition date.

	2005			
	NR COMMUNI-CATIONS LTD.	NEXXLINK TECHNOL-OGIES INC.	ALL OTHER BUSINESS ACQUI-SITIONS	TOTAL
Consideration received:				
Non-cash working capital	(16)	9	(12)	(19)
Capital assets	19	24	85	128
Other long-term assets	—	—	3	3
Indefinite-life intangible assets	57	—	20	77
Goodwill	—	47	84	131
Long-term debt	—	—	(61)	(61)
Other long-term liabilities	—	(6)	(12)	(18)
	60	74	107	241
Cash and cash equivalents (bank indebtedness) at acquisition	10	(3)	13	20
Net assets acquired	70	71	120	261
Consideration given: (1)				
Cash	69	67	105	241
Acquisition costs	1	4	2	7
Non-cash	—	—	13	13
	70	71	120	261

(1) This does not include contingent payments of $8 million that may be paid if certain conditions specified in the purchase agreements are met. If the payments are made, the amounts will be allocated to goodwill.

	2004			
	CANADIAN OPERATIONS OF 360 NETWORKS	40% INTEREST IN BELL WEST	ALL OTHER BUSINESS ACQUI-SITIONS	TOTAL
Consideration received:				
Non-cash working capital	(9)	—	10	1
Capital assets	—	(15)	12	(3)
Other long-term assets	429	5	10	444
Goodwill	—	395	166	561
Other long-term liabilities	(58)	—	—	(58)
Non-controlling interest	—	261	—	261
	362	646	198	1,206
Bank indebtedness at acquisition	—	—	(4)	(4)
Net assets acquired	362	646	194	1,202
Extraordinary gain	69	—	—	69
Consideration given:				
Cash	283	645	174	1,102
Acquisition costs	10	1	1	12
Future cash payment	—	—	4	4
Issuance of 582,081 Alliant common shares	—	—	15	15
	293	646	194	1,133

NOTE 4: RESTRUCTURING AND OTHER ITEMS

	2005	2004	2003
Restructuring initiatives	**(55)**	(1,063)	—
Loss on long-term contract	**—**	(128)	—
Settlement with MTS	**—**	75	—
Other charges	**—**	(108)	(14)
Restructuring and other items	**(55)**	(1,224)	(14)

The table below provides a summary of the restructuring costs recognized in 2005 as well as the corresponding liability as at December 31, 2005 .

	BELL CANADA	ALIANT	CONSOLI-DATED
Balance in accounts payable and accrued liabilities at December 31 , 2004	120	67	187
2005 restructuring initiatives	51	—	51
Less:			
Cash payments	(74)	(54)	(128)
Reversal of excess provision	(45)	—	(45)
Balance in accounts payable and accrued liabilities at December 31, 2005	**52**	**13**	**65**

EMPLOYEE DEPARTURE PROGRAM — BELL CANADA

In 2005, we recorded pre-tax restructuring charges of $55 million consisting of:

• charges of $51 million related to new restructuring initiatives for the involuntary departure of approximately 950 employees

• charges of $49 million for relocating employees and closing real estate facilities that are no longer needed because of the reduction in the workforce from the 2004 employee departure program.

These charges were partly offset by reversals of restructuring provisions of $45 million that were no longer necessary since actual payments were lower than estimated.

The 2004 employee departure program is complete and the remaining payments extend to 2007. In addition, we expect to spend approximately $25 million in 2006 for relocating employees and closing real estate facilities that are no longer needed because of our restructuring initiatives.

In 2004, we recorded a pre-tax restructuring charge of $985 million related to approximately 5,000 employee departures under the departure program that Bell Canada announced in June 2004. The program consisted of two phases:

• an early retirement plan —3,950 employees chose to receive a package that included a cash allowance, immediate pension benefits, an additional guaranteed pension payable up to 65 years of age, career transition services and post-employment benefits

• a departure plan — 1,050 employees chose to receive a special cash allowance.

We also recorded a pre-tax charge of $11 million for relocating employees and closing real estate facilities that were no longer needed because of the employee departure program.

EMPLOYEE DEPARTURE PROGRAM — ALIANT

In 2004 , Aliant recorded a pre-tax restructuring charge of $67 million. Under the employee departure program, 693 employees chose to receive a cash allowance. The program is complete and the remaining payments extend to 2008 .

LOSS ON LONG-TERM CONTRACT

In 2001 , we entered into a contract with the Government of Alberta to build a next-generation network to bring high-speed Internet and broadband capabilities to rural communities in Alberta. In 2004 , we identified cost overruns on the contract and recorded a charge of $128 million. We obtained acceptance from the Government of Alberta during the fourth quarter of 2005 .

SETTLEMENT WITH MTS

On May 20, 2004, Bell Canada filed a lawsuit against MTS after MTS announced it would purchase Allstream Inc. (Allstream). Bell Canada sought damages and an injunction that would prevent MTS from breaching the terms and conditions of the commercial agreements it had with Bell Canada. On June 3, 2004, Bell Canada also filed a lawsuit against Allstream seeking damages related to the same announcement.

On June 30, 2004, BCE Inc. reached an agreement with MTS to settle the lawsuits. The terms of the settlement included:

• a payment of $75 million by MTS to Bell Canada for unwinding various commercial agreements. This settlement was recorded in the second quarter of 2004 and received on August 3, 2004.

• the removal of contractual competitive restrictions to allow Bell Canada and MTS to compete freely with each other, effective June 30, 2004

• the orderly disposition of our interest in MTS. Our voting rights in MTS were waived after receiving the $75 million payment. We sold our interest in MTS in December 2004. See Note 5, *Other Income*, for more information.

• a premium payment to us by MTS in the event there is a change in control of MTS before 2006. The payment will equal the appreciation in MTS's share price from the time of our divestiture to the time of any takeover transaction.

OTHER CHARGES

During 2004, we recorded other pre-tax charges totalling $108 million. These costs consisted mostly of future lease costs for facilities that were no longer needed, asset write-downs and other provisions, net of a reversal of previously recorded restructuring charges that were no longer necessary because of the introduction of a new employee departure program.

In 2003, Bell Canada recorded other charges of $65 million that related to various asset write-downs and other provisions. These charges were offset by a credit of $66 million relating to the reversal of the restructuring charges recorded in 2002, which were no longer necessary because fewer employees were terminated than expected. This resulted from an increase in the number of employees being transferred to other positions within Bell Canada.

In 2003, Aliant recorded a pre-tax restructuring charge of $15 million. This was a result of a restructuring plan at its subsidiary Xwave Solutions Inc. Costs associated with the restructuring include severance and related benefits, technology lease cancellation penalties and real estate rationalization costs. The restructuring was completed in 2004.

NOTE 5: OTHER INCOME

	NOTE	2005	2004	2003
Net gains on investments		**33**	320	76
Interest income		**19**	30	67
Capitalized interest	12	**15**	19	24
Securitization losses	10	**(34)**	(26)	(33)
Bell Canada International Inc. (BCI) loss monetization charge		**(33)**	—	—
Debt restructuring costs		**(14)**	—	—
Income (loss) from cost and equity investments		**(11)**	24	35
Foreign currency gains (losses)		**(4)**	3	33
Other		**37**	37	(25)
Other income		**8**	407	177

NET GAINS ON INVESTMENTS

Net gains on investments of $33 million in 2005 included:

• a $39 million dilution gain in our interest in TerreStar Networks Inc., a mobile satellite services company

• a $7 million write-down of Bell Globemedia's investment in TQS Inc.

• other net gains on investments of $1 million.

Net gains on investments of $320 million in 2004 were from:

• a $108 million gain from the sale of Bell Canada's remaining 3.24% interest in YPG General Partner Inc. (YPG) for net cash proceeds of $123 million

• a $217 million gain from the sale of BCE Inc.'s 15.96% interest in MTS for net cash proceeds of $584 million. On August 1, 2004, the MTS shares were transferred from Bell Canada to BCE Inc. as part of a corporate reorganization. The purpose of this reorganization was to ensure that capital loss carryforwards at BCE Inc. would be available to be utilized against the gain on the sale of the MTS shares.

• other net losses on investments of $5 million.

Net gains on investments of $76 million in 2003 were from:

• a $120 million gain from the sale of a 3.66% interest in YPG for net cash proceeds of $135 million

• a $44 million loss from the write-down of number of our cost-accounted investments.

NOTE 6: INTEREST EXPENSE

	2005	2004	2003
Interest expense on long-term debt	**(939)**	(954)	(1,030)
Interest expense on other debt	**(42)**	(45)	(70)
Total interest expense	**(981)**	(999)	(1,100)

NOTE 7: INCOME TAXES

The table below reconciles the amount of reported income tax expense in the statements of operations with income tax expense at Canadian statutory rates of 34.4% in 2005, 34.4% in 2004, and 35.4% in 2003.

	2005	2004	2003
Income taxes computed at statutory rates	**(1,057)**	(790)	(1,100)
Savings from BCI monetization transaction	**99**	—	—
Net gains on investments	**—**	120	28
Large corporations tax	**(34)**	(37)	(46)
Other	**99**	26	32
Total income tax expense	**(893)**	(681)	(1,086)

The table below shows the significant components of income tax expense that related to earnings from continuing operations.

	2005	2004	2003
Current income taxes	**(147)**	(716)	(677)
Future income taxes Utilization of loss carryforwards	**(244)**	(38)	(402)
Change in statutory rate	**—**	(2)	(21)
Change in temporary differences and other	**(502)**	75	14
Total income tax expense	**(893)**	(681)	(1,086)

The table below shows future income taxes resulting from temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes, as well as tax loss carryforwards.

	2005	2004
Non-capital loss carryforwards	**565**	809
Capital loss carryforwards	**23**	23
Capital assets	**(508)**	(289)
Indefinite-life intangible assets	**(339)**	(339)
Employee benefit plans	**82**	91
Investments	**35**	49
Other	**(986)**	(756)
Total future income taxes	**(1,128)**	(412)

Future income taxes are comprised of:		
Future income tax asset — current portion	**474**	485
Future income tax asset — long-term portion	**511**	744
Future income tax liability — current portion	**(5)**	(8)
Future income tax liability — long-term portion	**(2,108)**	(1,633)
Total future income taxes	**(1,128)**	(412)

At December 31, 2005, BCE had $1,770 million in non-capital loss carryforwards. We:

• recognized a future tax asset of $565 million for financial reporting purposes for approximately $1,686 million of the non-capital loss carryforwards. Of the total, $1,614 million expires in varying annual amounts until the end of 2015. The balance expires in varying annual amounts from 2016 to 2025.

• did not recognize a future tax asset for financial reporting purposes for approximately $84 million of the non-capital loss carryforwards. Of the total, $12 million expires in varying annual amounts until the end of 2015. The balance expires in varying annual amounts from 2016 to 2025.

At December 31, 2005, BCE had $4,507 million in capital loss carryforwards, which can be carried forward indefinitely. We:

• recognized a future tax asset of $23 million for financial reporting purposes for approximately $102 million of the capital loss carryforwards

• did not recognize a future tax asset for financial reporting purposes on the balance.

BCI LOSS MONETIZATION TRANSACTION

On April 15, 2005, 3787915 Canada Inc., a wholly-owned subsidiary of Bell Canada, acquired $17 billion in preferred shares from 3787923 Canada Inc., a wholly-owned subsidiary of BCI. 3787923 Canada Inc. used the proceeds to advance $17 billion to BCI through a subordinated interest-free loan. BCI then advanced $17 billion to 3787915 Canada Inc. by way of a subordinated interest-bearing demand loan, the funds being used to repay a daylight loan granted to 3787915 Canada Inc. to make the initial preferred share investment. The dividend rate on the preferred shares was equal to 5.1%, which was essentially the same as the interest rate on the loan.

This transaction was unwound on August 18, 2005, and was part of a tax loss consolidation strategy that followed the transaction steps laid out in an advance tax ruling granted by the Canada Revenue Agency to Bell Canada and BCI. The transaction also received the approval of the Ontario Superior Court of Justice, which is supervising BCI's voluntary plan of arrangement pursuant to which BCI is monetizing its assets and resolving outstanding claims against it, with the ultimate objective of distributing the net proceeds to its shareholders and dissolving the company.

3787915 Canada Inc. had the legal right and intention to offset the demand loan payable to BCI and the investment in preferred shares of 3787923 Canada Inc. As a result, these items and the related interest expense and dividend income were presented on a net basis. The tax savings of $99 million resulting from the interest expense were presented as a reduction of income tax expense.

BCI will be compensated for the use of its losses by Bell Canada through a capital contribution to be made by BCE Inc. of 88% of the realized tax savings. BCE Inc.'s ownership interest in BCI remains at 62%. As a result:

• BCE Inc.'s carrying value of its investment in BCI was increased to reflect the increase in BCE Inc.'s share of the expected proceeds upon BCI's eventual liquidation

• a charge to other income was recorded to reflect the non-controlling interest's portion of the capital contribution to be made by BCE Inc.

NOTE 8: DISCONTINUED OPERATIONS

	2005	2004	2003
CGI Group Inc. (CGI)	**46**	54	51
Emergis	**—**	23	(154)
Teleglobe Inc. (Teleglobe)	**—**	—	39
Aliant's emerging business segment	**—**	—	(4)
Aliant's emerging communications segment	**—**	—	63
Net gain (loss) from discontinued operations	**46**	77	(5)

The table below is a summarized statement of operations for the discontinued operations.

	2005	2004	2003
Revenue	**897**	941	1,629
Operating gain from discontinued operations, before tax	**74**	84	150
Future income tax asset impairment charge	**—**	(56)	—
Gain (loss) from discontinued operations, before tax	**(1)**	70	(70)
Income tax expense on operating gain	**(27)**	(40)	(62)
Income tax recovery (expense) on loss (gain)	**—**	(3)	17
Non-controlling interest	**—**	22	(40)
Net gain (loss) from discontinued operations	**46**	77	(5)

The table below is a summary of cash provided by discontinued operations.

	2005	2004	2003
Cash flows from operating activities	**128**	91	260
Cash flows (used in) from investing activities	**(19)**	(42)	150
Cash flows (used in) from financing activities	**(94)**	101	(60)
Cash provided by discontinued operations	**15**	150	350

CGI

On December 16, 2005, we announced our decision to sell our investment in CGI and that CGI would purchase 100 million of the Class A shares held by us. As at December 31, 2005, we have accounted for CGI as a discontinued operation and no longer proportionately consolidate its financial results. CGI was previously presented in the Other BCE segment.

The transaction was finalized on January 12, 2006 and we realized total proceeds of $859 million. The gain on disposition was approximately $90 million. As a result of the transaction, our ownership in CGI decreased from 29.8% to 8.6%. Our remaining investment will be accounted for at cost.

Our current IS/IT outsourcing contract with CGI has been extended by four years until June 2016.

Our proportionate share of CGI's operating leases and other contractual obligations is $378 million ($72 million in 2006, $53 million in 2007, $39 million in 2008, $33 million in 2009, $28 million in 2010 and $153 million thereafter).

EMERGIS

In May 2004, our board of directors approved the sale of our 63.9% interest in Emergis, and in June 2004 we completed the sale by way of a secondary public offering.

In June 2004, Bell Canada paid $49 million to Emergis for:

• the purchase of Emergis' Security business

• the early termination of the Bell Legacy Contract on June 30, 2004 rather than December 31, 2004

• the transfer of related intellectual property to Bell Canada.

These transactions were recorded on a net basis. The net proceeds from the sale of Emergis were $285 million (net of $22 million of selling costs and a $49 million consideration given to Emergis). The gain on the transaction was $58 million.

The operating loss includes a future income tax asset impairment charge of $56 million ($36 million after non-controlling interest), which Emergis recorded before the sale as a result of the unwinding of tax loss utilization strategies that had been in place between Emergis, 4122780 Canada Inc. (a wholly-owned subsidiary of Emergis) and Bell Canada.

Emergis completed the sale of its US Health operations in March 2004 for US$223 million in cash. The loss on the transaction was $87 million ($160 million after non-controlling interest and BCE Inc.'s incremental goodwill), which was recorded in December 2003. Emergis was presented previously as a separate segment.

Emergis provides e-business solutions to the financial services industry in North America and the health-care industry in Canada. It automates transactions between companies and allows them to interact and transact electronically. Before Emergis sold its Security business it also provided organizations with the related security services. Before it sold its US Health operations, Emergis also operated cost containment networks that processed medical claims for health-care payers, including insurance companies and self-insured entities.

Teleglobe provided international voice and data telecommunications services. It also provided retail telecommunications services through its investment in the Excel Communications group until the second quarter of 2002. These services included long distance, paging and Internet services to residential and business customers in North America.

Aliant's emerging business segment consisted mainly of Aliant's investments in iMagicTV Inc., Prexar LLC and AMI Offshore Inc. iMagicTV Inc. is a software development company that provides broadband TV software and solutions to service providers around the world. Prexar LLC is an Internet services provider. AMI Offshore Inc. provides process and systems control technical services, and contracts manufacturing solutions to offshore oil and gas and other industries.

Aliant's remote communications segment consisted of Aliant's 53.2% investment in Stratos. Stratos offers Internet Protocol (IP), data and voice access services through a range of emerging and established technologies, including satellite and microwave, to customers in remote locations.

TELEGLOBE

Effective April 24, 2002, we started presenting the financial results of Teleglobe as a discontinued operation. They were previously presented as a separate segment.

The net gain of $39 million in 2003 related mainly to the use of available loss carryforwards that were applied against the taxes payable relating to Bell Canada's sale of a 3.66% interest in the directories business and Aliant's sale of Stratos Global Corporation (Stratos). The tax benefit associated with the remaining unused capital losses has not been reflected in the financial statements.

ALIANT'S REMOTE COMMUNICATIONS SEGMENT

Effective December 2003, we started presenting the financial results of Aliant's remote communications segment as a discontinued operation. They were previously presented in the Bell Canada segment.

Almost all of the assets of Aliant's emerging business segment were sold at December 31, 2003.

ALIANT'S EMERGING BUSINESS SEGMENT

Effective May 2003, we started presenting the financial results of Aliant's emerging business segment as a discontinued operation. They were previously presented in the Bell Canada segment.

In December 2003, Aliant completed the sale of Stratos after receiving the required regulatory approvals. Aliant received $340 million ($320 million net of selling costs) in cash for the sale. The transaction resulted in a gain on sale of $105 million ($48 million after taxes and non-controlling interest).

NOTE 9: EARNINGS PER SHARE

The table below is a reconciliation of the numerator and the denominator used in the calculation of basic and diluted earnings per common share from continuing operations.

	2005	2004	2003
Earnings from continuing operations (numerator)			
Earnings from continuing operations	**1,915**	1,447	1,820
Dividends on preferred shares	**(70)**	(70)	(64)
Premium on redemption of preferred shares	**—**	—	(7)
Earnings from continuing operations — basic	**1,845**	1,377	1,749
Weighted average number of common shares outstanding (denominator) (in millions)			
Weighted average number of common shares outstanding — basic	**926.8**	924.6	920.3
Assumed exercise of stock options (1)	**0.3**	0.6	1.6
Weighted average number of common shares outstanding — diluted	**927.1**	925.2	921.9

(1) The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. It does not include anti-dilutive options. These are options that would not be exercised because their exercise price is higher than the average market value of a BCE Inc. common share for each of the periods shown in the table. Including them would cause our diluted earnings per share to be overstated. The number of excluded options was 24,466,767 in 2005, 26,693,305 in 2004 and 22,176,302 in 2003.

NOTE 10: ACCOUNTS RECEIVABLE

	2005	2004
Trade accounts receivable	**1,842**	2,100
Allowance for doubtful accounts	**(130)**	(144)
Allowance for revenue adjustments	**(118)**	(102)
Income taxes receivable	**48**	1
Other accounts receivable	**124**	96
	1,766	1,951

SECURITIZATION OF ACCOUNTS RECEIVABLE

Bell Canada sold an interest in a pool of accounts receivable to a securitization trust for a total of $1.2 billion in cash at December 31, 2005 ($1 billion at December 31, 2004), under a revolving sales agreement that came into effect on December 12, 2001. The agreement expires on December 12, 2006. Bell Canada had a retained interest of $133 million in the pool of accounts receivable at December 31, 2005 ($133 million at December 31, 2004), which equals the amount of overcollateralization in the receivables it sold.

Aliant sold an interest in a pool of accounts receivable to a securitization trust for a total of $120 million in cash at December 31, 2005 ($125 million at December 31, 2004), under a revolving sales agreement that came into effect on December 13, 2001. The agreement expires on December 13, 2006. Aliant had a retained interest of $39 million in the pool at December 31, 2005 ($43 million at December 31, 2004).

Bell Canada and Aliant continue to service these accounts receivable. The buyers' interest in the collection of these accounts receivable ranks ahead of the interests of Bell Canada and Aliant, which means that Bell Canada and Aliant are exposed to certain risks of default on the amount securitized. They have provided various credit enhancements in the form of overcollateralization and subordination of their retained interests.

The buyers will reinvest the amounts collected by buying additional interests in the Bell Canada and Aliant accounts receivable until the agreements expire. The buyers and their investors have no claim on Bell Canada's and Aliant's other assets if customers do not pay amounts owed on time.

In 2005, we recognized a pre-tax loss of $34 million on the revolving sale of accounts receivable for the combined securitizations, compared to $26 million in 2004 and $33 million in 2003.

The table below shows balances for the combined securitizations at December 31, 2005 and the assumptions that were used in the model on the date of transfer and at December 31, 2005. A 10% or 20% adverse change in each of these assumptions would have no significant effect on the current fair value of the retained interest.

	RANGE	2005	2004
Securitized interest in accounts receivable		**1,354**	1,125
Retained interest		**172**	176
Servicing liability		**1.8**	1.3
Average accounts receivable managed		**1,972**	1,513
Assumptions:			
Cost of funds	2.54%—2.86%	**2.86%**	2.58%
Average delinquency ratio	7.70%—12.32%	**12.32%**	7.20%
Average net credit loss ratio	0.55%—0.90%	**0.56%**	0.90%
Weighted average life (days)	32—37	**37**	32
Servicing fee liability	2.00%	**2.00%**	2.00%

The table below is a summary of certain cash flows received from and paid to the trusts during the year.

	2005	2004
Collections reinvested in revolving sales	**17,724**	14,360
Increase in sale proceeds	**229**	95

NOTE 11: OTHER CURRENT ASSETS

	NOTE	2005	2004
Future income taxes	7	**474**	485
Inventory		**338**	295
Prepaid expenses		**205**	232
Other		**125**	49
		1,142	1,061

NOTE 12: CAPITAL ASSETS

	2005			2004		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Telecommunications assets:						
Inside plant	**19,246**	**13,358**	**5,888**	18,011	12,452	5,559
Outside plant	**14,433**	**9,475**	**4,958**	14,303	9,107	5,196
Station equipment	**2,655**	**1,311**	**1,344**	3,167	1,910	1,257
Machinery and equipment	**6,273**	**3,685**	**2,588**	5,529	3,039	2,490
Buildings	**3,157**	**1,340**	**1,817**	2,681	1,384	1,297
Plant under construction	**1,852**	**—**	**1,852**	1,605	—	1,605
Satellites	**1,552**	**404**	**1,148**	1,769	758	1,011
Land	**94**	**—**	**94**	95	—	95
Other	**200**	**66**	**134**	215	71	144
Total property, plant and equipment	**49,462**	**29,639**	**19,823**	47,375	28,721	18,654
Finite-life intangible assets:						
Software	**3,163**	**1,497**	**1,666**	3,158	1,274	1,884
Customer relationships	**623**	**64**	**559**	603	42	561
Other	**27**	**13**	**14**	10	5	5
Total capital assets	**53,275**	**31,213**	**22,062**	51,146	30,042	21,104

The cost of assets under capital leases was $1,283 million at December 31, 2005, and $848 million at December 31, 2004. The net book value of these assets was $887 million at December 31, 2005, and $530 million at December 31, 2004.

Amortization of capital assets was $3,111 million in 2005, $3,044 million in 2004, and $3,048 million in 2003.

We capitalized total interest costs of $15 million in 2005, $19 million in 2004, and $24 million in 2003.

Additions to finite-life intangible assets were $503 million in 2005 and $619 million in 2004.

NOTE 13: OTHER LONG-TERM ASSETS

	NOTE	2005	2004
Accrued benefit asset	24	**1,164**	1,128
Future income taxes	7	**511**	744
Investments at cost		**465**	261
Investment tax credits receivable		**345**	—
Investments at equity		**89**	110
Deferred debt issuance costs		**77**	82
Long-term notes and other receivables		**63**	135
Deferred development costs		**16**	8
Other		**184**	160
		2,914	2,628

Investments at equity include goodwill of $28 million at December 31, 2005 and December 31, 2004. Amortization of deferred charges was $3 million in 2005, $12 million in 2004, and $14 million in 2003.

NOTE 14: INDEFINITE-LIFE INTANGIBLE ASSETS

	2005	2004
Brand name	**1,986**	1,986
Spectrum licences	**895**	778
Television licences	**132**	134
Cable licences	**18**	18
	3,031	2,916

NOTE 15: GOODWILL

	NOTE	RESIDENTIAL	BUSINESS	ALIANT	OTHER BELL CANADA	OTHER BCE	CONSOLI-DATED
Balance — December 31, 2004		3,062	1,833	562	289	2,010	7,756
Additions	3	23	90	—	11	7	131
Balance — December 31, 2005		**3,085**	**1,923**	**562**	**300**	**2,017**	**7,887**

NOTE 16: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	NOTE	**2005**	2004
Trade accounts payable and accruals		**1,782**	1,830
Compensation payable		**548**	506
Deferred revenues		**441**	385
Taxes payable		**274**	216
Restructuring charges payable	4	**65**	187
Future income taxes	7	**5**	8
Other current liabilities		**320**	312
		3,435	3,444

NOTE 17: DEBT DUE WITHIN ONE YEAR

	NOTE	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE MATURITY	**2005**	2004
Bank advances		3.37%	N/A	**7**	18
Notes payable		4.11%	30 days	**80**	137
Long-term debt due within one year	18			**1,286**	1,117
				1,373	1,272

N/A : Not applicable.

Restrictions

Some of the credit agreements:

- require us to meet specific financial ratios
- restrict our acquisition of capital assets
- restrict the payment of dividends.

We are in compliance with all conditions and restrictions.

NOTE 18: LONG-TERM DEBT

	NOTE	WEIGHTED AVERAGE INTEREST RATE	MATURITY	2005	2004
BCE Inc. — Notes(a)		6.86%	2006 —2009	**2,000**	2,000
Bell Canada					
Debentures and notes(b)		7.14%	2006—2054	**8,380**	8,246
Subordinated debentures		8.21%	2026—2031	**275**	275
Capital leases(c)		6.16%	2006—2047	**854**	400
Other				**73**	75
Total — Bell Canada				**9,582**	8,996
Aliant					
Debentures, notes and bonds(d)		7.65%	2007—2025	**885**	885
Other				**19**	11
Total — Aliant				**904**	896
Bell Globemedia(e)					
Revolving reducing term credit agreements		3.97%	2006	**30**	40
Notes		6.44%	2009—2014	**450**	450
Total — Bell Globemedia				**480**	490
Telesat — Notes and other		7.84%	2006—2009	**340**	289
Other				**—**	18
Total debt				**13,306**	12,689
Unamortized premium(f)				**99**	113
Less: Amount due within one year	**17**			**(1,286)**	(1,117)
Long-term debt				**12,119**	11,685

(a) BCE Inc.

All notes are unsecured. BCE Inc. has the option to redeem $1.7 billion in notes at any time.

(b) Bell Canada

All debentures and notes are unsecured. They include:

- US$200 million maturing in 2006 and US$200 million maturing in 2010, both of which have been swapped into Canadian dollars
- $125 million of long-term debt, which includes a call option that allows for early redemption of the debentures.

(c) Bell Canada

Capital leases include $353 million in 2005 and $364 million in 2004, netted by loans receivable of $267 million in 2005 and $284 million in 2004. These obligations arose from agreements that Bell Canada entered into in 1999 and 2001 to sell and lease back telecommunications equipment for a total of $391 million. Some of the proceeds were invested in interest-bearing loans receivable. The capital lease obligations, net of loans, were originally issued for US$39 million and have been swapped into Canadian dollars.

(d) Aliant

All debentures and notes are unsecured. The bonds ($185 million in 2005 and 2004) are secured by deeds of trust and mortgage, and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon all real and tangible property and equipment, which includes inventory and all capital investments except software, and all rights and licences related to that property of Aliant Telecom Inc., based on province of issue. The bonds also provide, based on province of issue, a floating charge on all future real and tangible property of Aliant Telecom Inc. and all revenues and proceeds derived from that property. Aliant Telecom Inc. has swapped $100 million of debt from fixed to floating interest rates.

In addition, it has also issued swaptions related to two outstanding issues of long-term debt with a total notional amount of $90 million. The swaptions will permit the counterparty to enter into interest rate swap transactions. If exercised, these swaptions will involve the payment of fixed interest rates in exchange for the receipt of the three-month bankers' acceptance floating rate from 2006 until maturity in 2013.

(e) Bell Globemedia

Assets of CTV and one of its subsidiaries, CTV Specialty Television Inc. (CTV Specialty), are collateral for these agreements. $95 million of the short-term advances at December 31, 2004 were repaid to BCE Inc. in January 2005. These were replaced with long-term debt under existing long-term facilities. CTV and CTV Specialty have fixed interest rates through swap agreements on $95 million of bank debt.

(f) Unamortized Premium

This amount represents the unamortized purchase price allocated to long-term debt resulting from BCE's repurchase of SBC Communications Inc.'s 20% interest in Bell Canada Holdings Inc.

Restrictions

Some of the debt agreements:

• require us to meet specific financial ratios

• impose covenants, maintenance tests and new issue tests

• restrict the payment of dividends

• restrict how we can dispose of Bell Canada voting shares.

We are in compliance with all conditions and restrictions.

NOTE 19: OTHER LONG-TERM LIABILITIES

	NOTE	**2005**	2004
Future income taxes	7	**2,108**	1,633
Accrued benefit liability	24	**1,606**	1,519
Deferred revenue on long-term contracts		**389**	446
Deferred contract payments		**199**	254
Other		**762**	982
Total other long-term liabilities		**5,028**	4,834

NOTE 20: NON-CONTROLLING INTEREST

	2005	2004
Non-controlling interest in subsidiaries:		
Bell Globemedia	**817**	775
Aliant	**585**	640
Bell Nordiq Group Inc. (Bell Nordiq)	**150**	143
Other	**24**	28
	1,576	1,586
Preferred shares issued by subsidiaries:		
Bell Canada	**1,100**	1,100
Aliant	**172**	172
Telesat	**50**	50
	1,322	1,322
	2,898	2,908

NOTE 21: FINANCIAL INSTRUMENTS

DERIVATIVES

We use derivative instruments to manage our exposure to interest rate risk, foreign currency risk and changes in the price of BCE Inc. common shares that may be issued under our compensation plans (SCPs and DSUs). We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

The following derivative instruments were outstanding at December 31, 2005:

• cross-currency swaps and forward contracts that hedge foreign currency risk on a portion of our long-term debt

• interest rate swaps that hedge interest rate risk on a portion of our long-term debt

• forward contracts that hedge foreign currency risk on anticipated transactions

• forward contracts on BCE Inc. common shares that hedge the fair value exposure related to SCPs and DSUs.

CREDIT RISK

We are exposed to credit risk if counterparties to our derivative instruments are unable to meet their obligations. We expect that they will be able to

meet their obligations because we deal with institutions that have strong credit ratings and we regularly monitor our credit risk and credit exposure.

There was minimal credit risk relating to derivative instruments at December 31, 2005. We are also exposed to credit risk from our customers, but the concentration of this risk is minimized because we have a large and diverse customer base.

CURRENCY EXPOSURES

We use cross-currency swaps and forward contracts to hedge debt that is denominated in foreign currencies. We also use forward contracts to hedge foreign currency risk on anticipated transactions. Derivatives that qualify for hedge accounting, and the underlying hedged items, are marked-to-market at current rates.

The principal amount to be received under currency contracts was US$600 million at December 31, 2005. The principal amount to be paid under these contracts was $798 million at December 31, 2005.

INTEREST RATE EXPOSURES

We use interest rate swaps to manage the mix of fixed and floating interest rates on our debt. We have entered into interest rate swaps with a notional amount of $895 million, as follows:

• $700 million of interest rate swaps whereby we pay interest at a rate equal to the three-month bankers' acceptance floating interest rate plus 0.42%. We receive interest on these swaps at a rate of 5.0%. The swaps mature in 2017.

• $100 million interest rate swap whereby we pay interest at a rate equal to the three-month bankers' acceptance floating interest rate plus 2.1%. We receive interest on the swap at a rate of 6.8%. The swap matures in 2011.

• $75 million interest rate swap whereby we pay interest at a rate of 3.2%. We receive interest on the swap at a rate equal to the three-month bankers' acceptance floating rate. The swap matures in 2006.

• $20 million interest rate swap whereby we pay interest at a rate of 4.7%. We receive interest on the swap at a rate equal to the three-month bankers' acceptance floating rate. The swap matures in 2006.

We have also issued swaptions to permit the counter-party to enter into interest rate swap transactions for a notional amount of $90 million. If exercised, these swaptions will involve the payment of fixed interest rates of 10.5% and 11.1% in exchange for the receipt of the three-month bankers' acceptance floating rate from 2006 until maturity in 2013.

FAIR VALUE

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. We base fair values on estimates using present value and other valuation methods.

These estimates are affected significantly by assumptions we make about the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying value of all financial instruments approximates fair value, except for those noted in the table below.

	2005		2004	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Investment in Nortel (1)	**55**	**52**	54	59
Long-term debt due within one year	**1,286**	**1,304**	1,117	1,130
Long-term debt	**12,119**	**13,800**	11,685	13,623
Derivative financial instruments, net asset (liability) position:				
Forward contracts — BCE Inc. shares	**—**	**(1)**	(37)	(41)
Currency contracts (2)	**(83)**	**(120)**	(65)	(97)
Interest rate swaps and swaptions	**(8)**	**(17)**	(10)	(29)

(1) We have designated 4 million of our approximately 15 million Nortel common shares to manage our exposure to outstanding rights to SCPs.

(2) Currency contracts include cross-currency interest rate swaps and foreign currency forward contracts. Some of the cross-currency interest rate swaps are economic hedges that do not qualify for hedge accounting. We carry these at fair value and all gains or losses are recorded in the statement of operations.

NOTE 22: SHARE CAPITAL

PREFERRED SHARES

BCE Inc.'s articles of amalgamation provide for an unlimited number of First Preferred Shares and Second Preferred Shares. The terms set out in the articles authorize BCE Inc.'s directors to issue the shares in one or more series and to set the number of shares and conditions for each series.

The table below is a summary of the principal terms of BCE Inc.'s First Preferred Shares. There were no Second Preferred Shares issued and outstanding at December 31, 2005. BCE Inc.'s articles of amalgamation describe the terms and conditions of these shares in detail.

SERIES	ANNUAL DIVIDEND RATE	CONVERT-IBLE INTO	CONVERSION DATE	REDEMPTION DATE	REDEMP-TION PRICE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED AND OUT-STANDING	STATED CAPITAL AT DECEMBER 31 2005	STATED CAPITAL AT DECEMBER 31 2004
Q	floating	Series R	December 1, 2015	At any time	$ 25.50	8,000,000	—	**—**	—
R	4.54%	Series Q	December 1, 2010	December 1, 2010	$ 25.00	8,000,000	8,000,000	**200**	200
S	floating	Series T	November 1, 2006	At any time	$ 25.50	8,000,000	8,000,000	**200**	200
T	fixed	Series S	November 1, 2011	November 1, 2011	$ 25.00	8,000,000	—	**—**	—
Y	floating	Series Z	December 1, 2007	At any time	$ 25.50	10,000,000	1,147,380	**29**	29
Z	5.319%	Series Y	December 1, 2007	December 1, 2007	$ 25.00	10,000,000	8,852,620	**221**	221
AA	5.45%	Series AB	September 1, 2007	September 1, 2007	$ 25.00	20,000,000	20,000,000	**510**	510
AB	floating	Series AA	September 1, 2012	At any time	$ 25.50	20,000,000	—	**—**	—
AC	5.54%	Series AD	March 1, 2008	March 1, 2008	$ 25.00	20,000,000	20,000,000	**510**	510
AD	floating	Series AC	March 1, 2013	At any time	$ 25.50	20,000,000	—	**—**	—
								1,670	1,670

Voting Rights

All of the issued and outstanding preferred shares at December 31, 2005 were non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to Dividends

Holders of Series R, Z, AA and AC shares are entitled to fixed cumulative quarterly dividends. The dividend rate on these shares is reset every five years, as set out in BCE Inc.'s articles of amalgamation.

Holders of Series S and Y shares are entitled to floating adjustable cumulative monthly dividends.

If Series Q, AB and AD shares are issued, their holders will be entitled to floating adjustable cumulative monthly dividends.

If Series T shares are issued, their holders will be entitled to fixed cumulative quarterly dividends.

Conversion Features

All of the issued and outstanding preferred shares at December 31, 2005 are convertible at the holder's option into another associated series of preferred shares on a one-for-one basis according to the terms set out in BCE Inc.'s articles of amalgamation.

Redemption Features

BCE Inc. may redeem Series R, Z, AA and AC shares on the redemption date and every five years after that date.

If Series T shares are issued, BCE Inc. may redeem them on the redemption date and every five years after that date.

BCE Inc. may redeem Series S and Y shares at any time at $25.50 per share (being a 2% premium to the issue price). If Series Q, AB and AD shares are issued, BCE Inc. may redeem them at any time at $25.50 per share.

COMMON SHARES AND CLASS B SHARES

BCE Inc.'s articles of amalgamation provide for an unlimited number of voting common shares and non-voting Class B shares. The common shares and the Class B shares rank equally in the payment of dividends and in the distribution of assets if BCE Inc. is liquidated, dissolved or wound up, after payments due to the holders of preferred shares.

The table below provides details about the outstanding common shares of BCE Inc. No Class B shares were outstanding at December 31, 2005 and 2004.

	2005		2004	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
Outstanding, beginning of year	**925,935,682**	**16,781**	923,988,818	16,749
Shares issued under employee stock option plan	**1,383,234**	**25**	1,946,864	32
Outstanding, end of year	**927,318,916**	**16,806**	925,935,682	16,781

Dividend Reinvestment Plan

The dividend reinvestment plan allows eligible common shareholders to use their dividends to buy additional common shares. A trustee buys BCE Inc. common shares for the participants on the open market, by private purchase or from BCE Inc. (where the shares are issued from Treasury). BCE Inc. chooses the method the trustee uses to buy the shares.

A total of 3,039,870 common shares were bought on the open market under this plan for $91 million in 2005. A total of 3,198,015 common shares were bought on the open market under this plan for $89 million in 2004.

NOTE 23: STOCK-BASED COMPENSATION PLANS

EMPLOYEE SAVINGS PLANS

ESPs are designed to encourage employees of BCE Inc. and its participating subsidiaries to own shares of BCE Inc. Each year, employees who participate in the plans can choose to have up to a certain percentage of their annual earnings withheld through regular payroll deductions in order to buy BCE Inc. common shares. In some cases, the employer will also contribute up to a maximum percentage of the employee's annual earnings to the plan.

Each participating company decides on its maximum percentages. For Bell Canada, employees can contribute up to 12% of their annual earnings. Bell Canada contributes up to 2%.

The trustee of the ESP s buys BCE Inc. common shares for the participants on the open market, by private purchase or from BCE Inc. (where the shares are issued from Treasury). BCE Inc. chooses the method that the trustee uses to buy the shares.

There were 34,544 employees participating in the plans at December 31, 2005. The total number of common shares bought for employees was 6,222,262 in 2005 and 6,818,079 in 2004. The compensation expense related to ESP s was $38 million in 2005, 2004 and 2003. At December 31, 2005, 13,513,812 common shares were reserved for issuance under the ESPs.

STOCK OPTIONS

Under BCE Inc.'s long-term incentive programs, BCE Inc. may grant options to key employees to buy BCE Inc. common shares. The subscription price is usually equal to the market value of the shares on the last trading day before the grant comes into effect. At December 31, 2005, 25,255,113 common shares were authorized for issuance under these programs.

For options granted before January 1, 2004, the right to exercise options generally vests or accrues at 25% a year for four years of continuous employment from the date of grant, unless a special vesting period applies. Options become exercisable when they vest and can generally be exercised for a period of up to 10 years from the date of grant.

For most options granted after January 1, 2004, the right to exercise options vests after two and three years of continuous employment from the date of grant and if a specific company wide performance

target is met. Options become exercisable when they vest and can be exercised for a period of up to six years from the date of grant. Subject to achieving this specific performance target, 50% of the options will vest after two years and the remaining 50% after three years. Special vesting provisions may apply if:

• there is a change of control of BCE Inc. and the option holder's employment ends under certain circumstances

• the option holder is employed by a designated subsidiary of BCE Inc., and BCE Inc.'s ownership interest in that subsidiary falls below the percentage set out in the program.

When the Nortel common shares were distributed in May 2000, each outstanding BCE Inc. stock option was cancelled and replaced by two new stock options. The first option gives the holder the right to buy one BCE Inc. common share. The second option gives the holder the right to buy approximately 1.57 post-split common shares of Nortel (Nortel option) at exercise prices that maintain the holder's economic position.

The table below is a summary of the status of BCE Inc.'s stock option programs.

	2005		2004		2003	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)
Outstanding, January 1	**28,481,679**	**$ 32**	25,750,720	$ 32	24,737,423	$ 34
Granted	**1,481,924**	**$ 28**	5,911,576	$ 30	6,008,051	$ 28
Exercised	**(1,383,234)**	**$ 18**	(1,946,864)	$ 16	(552,681)	$ 17
Forfeited	**(1,237,634)**	**$ 34**	(1,233,753)	$ 34	(4,442,073)	$ 35
Outstanding, December 31	**27,342,735**	**$ 32**	28,481,679	$ 32	25,750,720	$ 32
Exercisable, December 31	**16,505,709**	**$ 34**	14,633,433	$ 34	10,722,294	$ 33

The table below shows more about BCE Inc.'s stock option programs at December 31, 2005.

	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE ($)
Below $20	**749,254**	**2.36 years**	**$ 15**	**749,254**	**$ 15**
$20—$29	**12,852,301**	**5.67 years**	**$ 29**	**3,198,525**	**$ 28**
$30—$39	**7,750,392**	**5.68 years**	**$ 34**	**6,567,142**	**$ 34**
Over $40	**5,990,788**	**4.78 years**	**$ 41**	**5,990,788**	**$ 41**
	27,342,735	**5.39 years**	**$ 32**	**16,505,709**	**$ 34**

ASSUMPTIONS USED IN STOCK OPTION PRICING MODEL

The following table shows the assumptions used to determine the stock-based compensation expense using the Black-Scholes option pricing model.

	2005	2004	2003
Compensation expense ($ millions)	**16**	22	22
Number of stock options granted	**1,481,924**	5,911,576	6,008,051
Weighted average fair value per option granted ($)	**3**	4	6
Weighted average assumptions:			
Dividend yield	**4.4%**	4.0%	3.6%
Expected volatility	**19%**	27%	30%
Risk-free interest rate	**3.6%**	3.1%	4.0%
Expected life (years)	**3.5**	3.5	4.5

Starting in 2004, most of the stock options granted contain a specific performance target that must be met before the option can be exercised. This is reflected in the calculation of the weighted average fair value per option granted.

RESTRICTED SHARE UNITS

In 2004, BCE Inc. granted RSUs to executives and other key employees. The value of an RSU is always equal to the value of one BCE Inc. common share. Dividends in the form of additional RSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividend paid on BCE Inc. common shares. Each executive is granted a specific number of RSUs for a given performance period, based on his or her position and level of contribution. At the end of each given performance period, RSUs vest if performance objectives are met or are forfeited.

Vested RSUs are paid in BCE Inc. common shares purchased on the open market, in cash or through a combination of both, as the holder chooses, as long as individual share ownership requirements are met.

The table below is a summary of the status of RSUs.

	NUMBER OF RSUS	
	2005	2004
Outstanding, January 1	**1,996,522**	—
Granted	**504,427**	1,986,513
Dividends credited	**100,657**	61,086
Forfeited	**(80,825)**	(51,077)
Outstanding, December 31	**2,520,781**	1,996,522

For the year ended December 31, 2005, we recorded a compensation expense for RSUs of $37 million ($25 million in 2004).

SPECIAL COMPENSATION PAYMENTS

Before 2000, when BCE Inc. granted options to executives and other key employees, related rights to SCPs were also often granted. SCPs are cash payments representing the amount that the market value of the shares on the date of exercise of the related options exceeds the exercise price of these options.

When the distribution of Nortel common shares was made in 2000, the outstanding options were cancelled and replaced with options to buy BCE Inc. common shares and options to buy Nortel common shares. The related SCPs were adjusted accordingly.

For each right to an SCP held before the distribution, right holders now have rights related to both BCE Inc. and Nortel common shares.

The number of SCPs outstanding at December 31, 2005 was:

- 490,058 relating to BCE Inc. common shares
- 2,332,004 relating to Nortel common shares.

All of the outstanding SCPs cover the same number of shares as the options that they relate to. It is the employer's responsibility to make the payments under the SCPs. There was income related to SCPs of $3 million in 2005, $9 million in 2004, and $29 million in 2003. These amounts included the recovery of SCP expense as a result of forfeitures in the amounts of $3 million, $14 million and $50 million for the years 2005, 2004 and 2003 respectively.

DEFERRED SHARE UNITS

Eligible bonuses may be paid in the form of DSUs when executives or other key employees elect or are required to participate in the plan. For non-management directors, their compensation is paid in DSUs until the minimum share ownership requirement is met or as elected by the directors thereafter.

The value of a DSU is always equal to the value of one BCE Inc. common share. Dividends in the form of additional DSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividends paid on BCE Inc. common shares.

DSUs are paid in BCE Inc. common shares purchased on the open market following the cessation of a participant's employment or when a director leaves the board.

The table below is a summary of the status of DSUs.

	NUMBER OF DSUS		
	2005	2004	2003
Outstanding, January 1	**886,714**	703,995	890,834
Granted	**173,158**	306,225	154,417
Dividends credited	**40,668**	37,226	31,472
Payments	**(115,892)**	(160,732)	(372,728)
Outstanding, December 31	**984,648**	886,714	703,995

For the year ended December 31, 2005, we recorded a compensation expense for DSUs of $4 million (expense of $5 million in 2004 and income of $5 million in 2003).

NOTE 24: EMPLOYEE BENEFIT PLANS

We provide pension, other retirement and post-employment benefits for almost all of our employees. These include DB pension plans, plans that provide other employee future benefits and DC pension plans.

	2005	2004	2003
Pension benefits:			
DB plans cost	**236**	85	13
DC plans cost	**26**	15	5
Other future benefits costs	**118**	156	157
Net benefit plans cost	**380**	256	175

COMPONENTS OF DEFINED BENEFIT PLANS COST

The table below shows the defined benefit plans cost before and after recognizing its long-term nature. The recognized net benefit plans cost reflects the amount reported in our statements of operations and is calculated according to our accounting policy.

	PENSION BENEFITS			OTHER BENEFITS		
	2005	2004	2003	**2005**	2004	2003
Current service cost	**221**	228	217	**35**	31	31
Interest cost on accrued benefit obligation	**876**	806	757	**110**	104	105
Actual (return) loss on plan assets	**(1,573)**	(1,074)	(1,583)	**(12)**	(4)	(8)
Past service costs arising during period	**3**	77	4	**(120)**	14	2
Actuarial loss (gain) on accrued benefit obligation	**1,803**	772	513	**499**	102	(52)
Elements of employee future benefit plans cost (credit), before recognizing its long-term nature	**1,330**	809	(92)	**512**	247	78
Excess (deficiency) of actual return over expected return (1)	**628**	121	648	**2**	(6)	(1)
Deferral of amounts arising during period:						
Past service costs	**(3)**	(77)	(4)	**120**	(14)	(2)
Actuarial (loss) gain on accrued benefit obligation	**(1,803)**	(772)	(513)	**(499)**	(102)	52
Amortization of previously deferred amounts:						
Past service costs	**9**	10	9	**1**	—	—
Net actuarial losses	**97**	33	23	**—**	1	—
Transitional (asset) obligation	**—**	(44)	(44)	**26**	30	30
Curtailment gain(2)	**—**	—	—	**(44)**	—	—
Adjustments to recognize long-term nature of employee future benefit plans cost (credit)	**(1,072)**	(729)	119	**(394)**	(91)	79
Increase (decrease) in valuation allowance	**(24)**	3	(12)	**—**	—	—
Other	**2**	2	(2)	**—**	—	—
DB plans cost, recognized	**236**	85	13	**118**	156	157

(1) The expected return on plan assets for a given year is calculated based on the market-related value of plan assets at the beginning of that year. The market-related value of pension plan assets was $12,928 million at January 1, 2005, $13,044 million at January 1, 2004, and $12,542 million at January 1, 2003.

(2) 2005 includes a curtailment gain associated with the phase-out, over the next three years, of a discretionary allowance program.

COMPONENTS OF ACCRUED BENEFIT ASSET (LIABILITY)

The table below shows the change in benefit obligations, change in fair value of plan assets and the funded status of the DB plans.

	PENSION BENEFITS		OTHER BENEFITS	
	2005	2004	**2005**	2004
Accrued benefit obligation, beginning of year	**14,348**	12,505	**1,772**	1,615
Current service cost	**221**	228	**35**	31
Interest cost on accrued benefit obligation	**876**	806	**110**	104
Actuarial losses	**1,803**	772	**499**	102
Benefit payments	**(897)**	(725)	**(93)**	(81)
Employee contributions	**11**	8	**—**	—
Special termination costs(1)	**(17)**	660	**(21)**	(12)
Plan amendment(2)	**3**	77	**(120)**	14
Transfers from DC pension plans	**221**	—	**—**	—
Other	**—**	17	**(1)**	(1)
Accrued benefit obligation, end of year	**16,569**	14,348	**2,181**	1,772
Fair value of plan assets, beginning of year	**13,030**	12,569	**137**	133
Actual return on plan assets	**1,573**	1,074	**12**	4
Benefit payments	**(897)**	(725)	**(93)**	(81)
Employer contributions	**215**	97	**93**	81
Employee contributions	**11**	8	**—**	—
Transfers from DC pension plans	**221**	—	**—**	—
Other	**(15)**	7	**—**	—
Fair value of plan assets, end of year	**14,138**	13,030	**149**	137
Plan deficit	**(2,431)**	(1,318)	**(2,032)**	(1,635)
Unamortized net actuarial losses	**3,361**	2,304	**491**	47
Unamortized past service costs	**121**	129	**(1)**	17
Unamortized transitional (asset) obligation	**(35)**	(35)	**187**	227
Valuation allowance	**(103)**	(127)	**—**	—
Accrued benefit asset (liability), end of year	**913**	953	**(1,355)**	(1,344)
Accrued benefit asset included in other long-term assets	**1,164**	1,128	**—**	—
Accrued benefit liability included in other long-term liabilities	**(251)**	(175)	**(1,355)**	(1,344)

(1) Costs in 2004 relate to the employee departure programs announced at Bell Canada. See Note 4, Restructuring and Other Items*, for more information.*

(2) 2005 includes a curtailment gain associated with the phase-out, over the next three years, of a discretionary allowance program. Costs in 2004 mainly relate to DB pension plan amendments at Aliant whereby certain bargaining unit employees and eligible management employees were awarded past service benefits.

For DB pension plans with an accrued benefit obligation that was more than plan assets:

- the accrued benefit obligation was $16,430 million at December 31, 2005, and $14,087 million at December 31, 2004
- the fair value of plan assets was $13,866 million at December 31, 2005, and $12,630 million at December 31, 2004.

For DB pension plans with an accrued benefit obligation that was less than plan assets:

- the accrued benefit obligation was $139 million at December 31, 2005, and $261 million at December 31, 2004
- the fair value of plan assets was $272 million at December 31, 2005, and $400 million at December 31, 2004.

SIGNIFICANT ASSUMPTIONS

We used the following key assumptions to measure the accrued benefit obligation and the net benefit plans cost for the DB pension plans and plans that provide other employee future benefits. These assumptions are long-term, which is consistent with the nature of employee benefit plans.

	PENSION BENEFITS			OTHER BENEFITS		
	2005	2004	2003	**2005**	2004	2003
At December 31						
Accrued benefit obligation:						
Discount rate, end of year	**5.2%**	6.2%	6.5%	**5.2%**	6.2%	6.5%
Rate of compensation increase, end of year	**3.0%**	3.5%	3.5%	**3.0%**	3.5%	3.5%
For the year ended December 31						
Net benefit plans cost:						
Discount rate, end of preceding year	**6.2%**	6.5%	6.5%	**6.2%**	6.5%	6.5%
Expected return on plan assets, end of preceding year	**7.5%**	7.5%	7.5%	**7.5%**	7.5%	7.5%
Rate of compensation increase, end of preceding year	**3.5%**	3.5%	3.5%	**3.5%**	3.5%	3.5%

We assumed the following trend rates in health-care costs:

• an annual rate of increase of 4.5% in the cost per person of covered health-care benefits for 2005 and the foreseeable future

• an annual rate of increase of 10.5% in the cost of medication for 2005 and a gradual decline to 4.5% over six years.

Assumed trend rates in health-care costs have a significant effect on the amounts reported for the health-care plans. The table below, for example, shows the effect of a 1% change in the assumed trend rates in health-care costs.

	1% INCREASE	1% DECREASE
Effect on other benefits — total service and interest cost	19	(18)
Effect on other benefits — accrued obligation	231	(217)

PENSION PLAN ASSETS

The investment strategy for the major benefit plans is to maintain a diversified portfolio of assets, invested in a prudent manner to maintain the security of funds while maximizing returns within our guidelines. The expected rate of return assumption is based on our target asset allocation policy and the expected future rates of return on these assets. The table on the next page shows the allocation of our pension plan assets at December 31, 2005 and 2004, target allocations for 2005 and the expected long-term rate of return by asset class.

ASSET CATEGORY	WEIGHTED AVERAGE TARGET ALLOCATION **2005**	PERCENTAGE OF PLAN ASSETS AT DECEMBER 31 **2005**	2004	WEIGHTED AVERAGE EXPECTED LONG-TERM RATE OF RETURN **2005**
Equity securities	**45%—65%**	**59%**	57%	**9.0%**
Debt securities	**35%—55%**	**41%**	43%	**5.5%**
Total/average		**100%**	100%	**7.5%**

Equity securities included approximately $62 million of BCE Inc. common shares or 0.4% of total plan assets at December 31, 2005, and approximately $95 million of BCE Inc. common shares or 0.7% of total plan assets at December 31, 2004.

Debt securities included approximately $14 million of BCE Inc. and affiliates' debentures or 0.1% of total plan assets at December 31, 2005, and approximately $8 million of BCE Inc. and affiliates' debentures or 0.1% of total plan assets at December 31, 2004.

ESTIMATED FUTURE BENEFIT PAYMENTS

The table below shows the estimated future defined benefit payments for the next 10 years as at December 31, 2005.

	PENSION BENEFITS	OTHER BENEFITS
2006	907	97
2007	928	103
2008	950	108
2009	973	114
2010	995	121
2011—2015	5,284	698
Total estimated future benefit payments	10,037	1,241

CASH FLOWS

We are responsible for adequately funding our DB pension plans. We make contributions to them based on various actuarial cost methods that are permitted by pension regulatory bodies. Contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits.

We contribute to the DC pension plans as employees provide service.

The table below shows the amounts we contributed to the DB and DC pension plans and the payments made to beneficiaries under other employee future benefit plans.

	PENSION BENEFITS			OTHER BENEFITS		
	2005	2004	2003	**2005**	2004	2003
Aliant	**172**	67	125	**5**	4	4
Bell Canada	**27**	20	17	**88**	77	83
Bell Globemedia	**20**	17	11	**—**	—	—
BCE Inc.	**7**	8	7	**—**	—	—
Total	**226**	112	160	**93**	81	87
Comprised of:						
Contributions to DB plans	**215**	97	155	**93**	81	87
Contributions to DC plans	**11**	15	5	**—**	—	—

We expect to contribute approximately $470 million to the DB pension plans in 2006, subject to actuarial valuations being completed. We expect to pay approximately $100 million to beneficiaries under other employee benefit plans in 2006. We expect to contribute approximately $30 million to the DC pension plans in 2006.

NOTE 25: COMMITMENTS AND CONTINGENCIES

CONTRACTUAL OBLIGATIONS

The table below is a summary of our contractual obligations at December 31, 2005 that are due in each of the next five years and after 2010.

	2006	2007	2008	2009	2010	THERE-AFTER	TOTAL
Long-term debt (excluding capital leases)	1,160	1,686	1,043	1,624	1,013	5,955	**12,481**
Notes payable and bank advances	87	—	—	—	—	—	**87**
Capital leases	126	110	63	47	45	533	**924**
Operating leases	231	204	181	158	134	679	**1,587**
Commitments for capital expenditures	184	52	8	2	16	—	**262**
Purchase obligations	1,413	1,001	716	287	205	530	**4,152**
Other long-term liabilities (including current portion)	143	119	79	80	4	25	**450**
Total	3,344	3,172	2,090	2,198	1,417	7,722	**19,943**

Long-term debt and notes payable and bank advances include $58 million drawn under our committed credit facilities. They do not include $455 million of letters of credit. The total amount available under these committed credit facilities and under our commercial paper programs, including the amount currently drawn, is $2.4 billion. Current commercial paper credit lines expire during August 2008.

The imputed interest to be paid on capital leases is $649 million.

Rental expense relating to operating leases was $316 million in 2005, $358 million in 2004, and $327 million in 2003.

Purchase obligations consist mainly of contractual obligations under service contracts. Our commitments for capital expenditures include investments to expand and update our networks, and to meet customer demand.

Other long-term liabilities included in the table relate to:

• Bell Canada's future payments over the remaining life of its contract with Amdocs Canadian Managed Services, Inc. (formerly Certen Inc.) for the development of Bell Canada's billing system. The total amount was $254 million at December 31, 2005.

• Bell Globemedia's remaining obligations relating to CRTC benefits owing on previous business combinations. These and other long-term liabilities were $85 million at December 31, 2005.

• Telesat's deferred satellite performance incentive payments and their deferred milestone payments. The total amount was $111 million at December 31, 2005.

Excluded from the table above is our proportionate share of CGI's operating leases and other contractual obligations, which are disclosed in Note 8, *Discontinued Operations* .

At December 31, 2005, we had other long-term liabilities that were not included in the table, including an accrued employee benefit liability, future income tax liabilities, deferred revenue and gains on assets and various other long-term liabilities.

We did not include the accrued employee benefit liability and future income tax liabilities in the table because we cannot accurately determine the timing and amount of cash needed for them. This is because:

• future contributions to the pension plans depend largely on how well they are funded. This varies based on the results of actuarial valuations that are performed periodically and on the investment performance of the pension fund assets.

• future payments of income taxes depend on the amount of taxable earnings and on whether there are tax loss carryforwards available to reduce income tax liabilities.

We did not include deferred revenue and gains on assets in the table because they do not represent future cash payments.

COMMITMENT UNDER THE CRTC DEFERRAL MECHANISM

The total balance of Bell Canada's and Aliant's deferral obligation at December 31, 2005 is estimated to be approximately $107 million. This amount represents BCE's estimated annual commitment under the deferral account mechanism, calculated in terms of permanent rate reductions, from January 1, 2006 onwards. The amount in the account can be cleared by means of permanent rate reductions or other initiatives, including capital initiatives as directed by the CRTC. The deferral account obligation will change as amounts are added to the account or the CRTC approves initiatives that serve to reduce the deferral account obligation, and any amounts remaining in the deferral accounts will bear interest at the Incumbent Local Exchange Carrier's (ILEC) short-term cost of debt each year until disposition.

LITIGATION

Teleglobe Lending Syndicate Lawsuit

On July 12, 2002, some members of the Teleglobe and Teleglobe Holdings (U.S.) Corporation lending syndicate filed a lawsuit against BCE Inc. in the Ontario Superior Court of Justice. The lawsuit includes several allegations, including that BCE Inc. and its management, in effect, made a legal commitment to repay the advances the plaintiffs made as members of the lending syndicate, and that the Court should disregard Teleglobe as a corporate entity and hold BCE Inc. responsible to repay the advances as Teleglobe's alter ego.

On November 2, 2004, Canadian Imperial Bank of Commerce and Canadian Imperial Bank of Commerce, N.Y. Agency withdrew from the lawsuit and on May 3, 2005, BNP Paribas (Canada) also withdrew from this lawsuit. The remaining plaintiffs claim damages of US$1.04 billion, plus interest and costs. This represents approximately 83% of the US$1.25 billion that the lending syndicate advanced to Teleglobe and Teleglobe Holdings (U.S.) Corporation.

While we cannot predict the outcome of any legal proceeding, based on information currently available, BCE Inc. believes that it has strong defences, and it intends to vigorously defend its position.

Kroll Restructuring Lawsuit

In February 2003, a lawsuit was filed in the Ontario Superior Court of Justice by Kroll Restructuring Ltd., in its capacity as interim receiver of Teleglobe, against five former directors of Teleglobe. This lawsuit was filed in connection with Teleglobe's redemption of its third series preferred shares in April 2001 and the retraction of its fifth series preferred shares in March 2001.

The plaintiff is seeking a declaration that such redemption and retraction were prohibited under the *Canada Business Corporations Act* and that the five former directors should be held jointly and severally liable to restore to Teleglobe all amounts paid or distributed on such redemption and retraction, being an aggregate of approximately $661 million, plus interest.

While BCE Inc. is not a defendant in this lawsuit, Teleglobe was at the relevant time a subsidiary of BCE Inc. Pursuant to standard policies and subject to applicable law, the five former Teleglobe directors are entitled to seek indemnification from BCE Inc. in connection with this lawsuit.

While we cannot predict the outcome of any legal proceeding, based on information currently available, BCE Inc. believes that the defendants have strong defences and that the claims of the plaintiff will be vigorously defended against.

Teleglobe Unsecured Creditors Lawsuit

On May 26, 2004, a lawsuit was filed in the United States Bankruptcy Court for the District of Delaware. The United States District Court for the District of Delaware subsequently withdrew the reference from the Bankruptcy Court and the matter is now pending in the District Court for the District of Delaware. The lawsuit is against BCE Inc. and 10 former directors and officers of Teleglobe and certain of its subsidiaries. The plaintiffs are comprised of Teleglobe Communications Corporation, certain of its affiliated debtors and debtors in possession, and the Official Committee of Unsecured Creditors of these debtors. The lawsuit alleges breach of an alleged funding commitment of BCE Inc. towards the debtors, promissory estoppel, misrepresentation by BCE Inc. and breach and aiding and abetting breaches of fiduciary duty by the defendants. The plaintiffs seek an unspecified amount of damages against the defendants.

While we cannot predict the outcome of any legal proceeding, based on information currently available, BCE Inc. believes that it and the other defendants have strong defences, and they intend to vigorously defend their position.

Teleglobe Plan Administrator Lawsuit

On November 16, 2005, Kathy Morgan, in her capacity as Plan Administrator for Teleglobe, filed a lawsuit in the Ontario Superior Court of Justice against BCE Inc. and seven former directors of Teleglobe. The plaintiff is seeking a declaration that Teleglobe and its creditors have been oppressed by the former directors of Teleglobe and by BCE Inc. within the meaning of the *Canada Business Corporations Act*. The plaintiff is also seeking a declaration that the former directors of Teleglobe breached their fiduciary duty to Teleglobe and failed to act in accordance with the standard of care prescribed under the *Canada Business Corporations Act*.

The plaintiff is seeking compensation for oppression in the amount of $3 billion and damages for breach of fiduciary duty in the amount of $3 billion, in each case plus interest and costs.

While we cannot predict the outcome of any legal proceeding, based on information currently available, BCE Inc. believes that it and the other defendants have strong defences and they intend to vigorously defend their position.

Other Litigation

We become involved in various other claims and litigation as a part of our business.

While we cannot predict the final outcome of claims and litigation that were pending at December 31, 2005, based on information currently available, management believes that the resolution of these claims and litigation will not have a material and negative effect on our consolidated financial position or results of operations.

NOTE 26: GUARANTEES

As a regular part of our business, we enter into agreements that provide for indemnifications and guarantees to counterparties that may require us to pay for costs and losses incurred in various types of transactions. We cannot reasonably estimate the maximum potential amount we could be required to pay counterparties. While some of the agreements specify a maximum potential exposure, many do not specify a maximum amount or limited period. The amount also depends on the outcome of future events and conditions, which cannot be predicted. Historically, we have not made any significant payments under these indemnifications or guarantees.

The following table represents guarantees that BCE has entered into which have a fixed maximum potential exposure, and their respective terms.

	2006	2007	2008	2009	2010+	INDEFI-NITE	TOTAL
Sale of assets and businesses	—	15	—	—	1,502	134	**1,651**
Sale of services	10	15	10	91	55	—	**181**
Purchase and development of assets	—	—	11	1	—	10	**22**
Other	—	—	—	—	—	12	**12**
Total guarantees	10	30	21	92	1,557	156	**1,866**

BCE also has guarantees where no maximum potential amount is specified.

SALE OF ASSETS AND BUSINESSES

As part of transactions involving business dispositions and sales of assets, we may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties, loss or damages to property, environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislation), valuation differences, earn-out guarantees if the disposed business does not meet specific targets, contingent liabilities of a disposed business, or reassessments of previous tax filings of the corporation that carries on the business.

A total of $15 million has been accrued in the consolidated balance sheet relating to this type of indemnification or guarantee at December 31 , 2005 . Historically, we have not made any significant payments under this type of indemnification or guarantee.

SALE OF SERVICES

In transactions involving sales of services, we may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties, or changes in or in the interpretation of laws and regulations (including tax legislation).

No amount has been accrued in the consolidated balance sheet relating to this type of indemnification or guarantee at December 31 , 2005 . Historically, we have not made any significant payments under such indemnifications or guarantees.

PURCHASE AND DEVELOPMENT OF ASSETS

As part of transactions involving purchases and development of assets, we may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties, loss or damages to property, or changes in or in the interpretation of laws and regulations (including tax legislation).

No amount has been accrued in the consolidated balance sheet relating to this type of indemnification or guarantee at December 31 , 2005 . Historically, we have not made any significant payments under such indemnifications or guarantees.

OTHER TRANSACTIONS

As part of other transactions, such as securitization agreements and operating leases, we may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties, loss or damages to property, or changes in or in the interpretation of laws and regulations (including tax legislation).

No amount has been accrued in the consolidated balance sheet relating to this type of indemnification or guarantee at December 31 , 2005 . Historically, we have not made any significant payments under such indemnifications or guarantees.

NOTE 27: SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS

	2005	2004	2003
Interest paid	**960**	981	1,105
Income taxes paid (net of refunds)	**249**	176	(47)
Cash provided by (used in) non-cash operating assets and liabilities is as follows:			
Accounts receivable	**371**	(350)	217
Other current assets	**(41)**	(119)	(25)
Other long-term assets	**(94)**	(22)	17
Accounts payable and accrued liabilities	**(527)**	601	559
Other long-term liabilities	**(138)**	12	(105)
Other	**39**	(35)	(7)
	(390)	87	656

NOTE 28: RECONCILIATION OF CANADIAN GAAP TO UNITED STATES GAAP

We have prepared these consolidated financial statements according to Canadian GAAP . The following tables are a reconciliation of significant differences relating to the statement of operations and total shareholders' equity reported according to Canadian GAAP and United States GAAP .

RECONCILIATION OF NET EARNINGS

	2005	2004	2003
Canadian GAAP — Earnings from continuing operations	**1,915**	1,447	1,820
Adjustments:			
Deferred costs **(a)**	**—**	7	(1)
Employee future benefit costs **(b)**	**(65)**	(75)	(132)
Equity income **(c) (e)**	**46**	52	50
Derivative instruments **(d)**	**(2)**	—	(12)
Other	**5**	—	(8)
United States GAAP — Earnings from continuing operations	**1,899**	1,431	1,717
Discontinued operations — United States GAAP **(e) (k)**	**—**	107	(56)
Cumulative effect of change in accounting policy **(f)**	**—**	—	(25)
United States GAAP — Net earnings before extraordinary gain	**1,899**	1,538	1,636
Extraordinary gain	**—**	69	—
United States GAAP — Net earnings	**1,899**	1,607	1,636
Dividends on preferred shares **(d)**	**(85)**	(85)	(70)
Premium on redemption of preferred shares	**—**	—	(7)
United States GAAP — Net earnings applicable to common shares	**1,814**	1,522	1,559
Other comprehensive earnings items:			
Change in currency translation adjustment	**(17)**	(10)	(56)
Change in unrealized gain (loss) on investments and derivative instruments **(d) (g)**	**131**	(12)	17
Additional minimum liability for pension obligations **(b)**	**(1,112)**	(72)	(40)
Comprehensive earnings	**816**	1,428	1,480
Net earnings per common share — basic			
Continuing operations	**1.96**	1.46	1.78
Discontinued operations and change in accounting policy	**—**	0.12	(0.09)
Extraordinary gain	**—**	0.07	—
Net earnings	**1.96**	1.65	1.69
Net earnings per common share — diluted			
Continuing operations	**1.95**	1.45	1.78
Discontinued operations and change in accounting policy	**—**	0.12	(0.09)
Extraordinary gain	**—**	0.07	—
Net earnings	**1.95**	1.64	1.69
Dividends per common share	**1.32**	1.20	1.20
Average number of common shares outstanding (millions)	**926.8**	924.6	920.3

STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

	2005	2004	2003
Currency translation adjustment	**(73)**	(56)	(46)
Unrealized gain on investments and derivative instruments **(d) (g)**	**135**	4	16
Additional minimum liability for pension obligations **(b)**	**(1,305)**	(193)	(121)
Accumulated other comprehensive loss	**(1,243)**	(245)	(151)

RECONCILIATION OF TOTAL SHAREHOLDERS' EQUITY **(k)**

	2005	2004	2003
Canadian GAAP	**14,721**	14,024	13,565
Adjustments:			
Deferred costs **(a)**	**(37)**	(37)	(44)
Employee future benefits **(b)**	**(1,460)**	(283)	(136)
Goodwill **(h)**	**63**	63	63
Other	**21**	33	47
Discontinued operations **(e)**	**—**	—	(81)
Unrealized gain on investments and derivative instruments **(d) (g)**	**135**	4	16
United States GAAP	**13,443**	13,804	13,430

DESCRIPTION OF UNITED STATES GAAP ADJUSTMENTS

(a) Deferred Costs

Under Canadian GAAP , certain expenses, such as development and pre-operating costs, can be deferred and amortized if they meet certain criteria. Under United States GAAP , these costs are expensed as incurred.

(b) Employee Future Benefits

The accounting for future benefits for employees under Canadian GAAP and United States GAAP is essentially the same, except for the recognition of certain unrealized gains and losses.

Canadian GAAP requires companies to recognize a pension valuation allowance for any excess of the accrued benefit asset over the expected future benefit. Changes in the pension valuation allowance are recognized in the consolidated statement of operations. United States GAAP does not specifically address pension valuation allowances. United States regulators have interpreted this to be a difference between Canadian and United States GAAP .

Under United States GAAP , an additional minimum liability is recorded for the excess of the unfunded accumulated benefit obligation over the recorded pension benefit liability. An offsetting intangible asset equal to the unrecognized prior service costs is recorded. Any difference is recorded as a reduction in accumulated other comprehensive income. The accumulated benefit obligation at December 31 , 2005 was $15.5 billion.

(c) Equity Income

Under Canadian GAAP , we account for our joint venture investments using the proportionate consolidation method. Under United States GAAP , we account for our joint venture investments using the equity method. There is no impact on net earnings.

In 2005 , we reclassified the results of our interest in CGI as a discontinued operation under Canadian GAAP . Under United States GAAP , we must continue to account for our investment in CGI using the equity method until its disposal. An adjustment is made to reclassify the results of CGI from discontinued operations to continuing operations as equity income.

(d) Accounting for Derivative Instruments and Hedging Activities

Under United States GAAP , all derivatives must be recorded on the balance sheet at fair value. Changes in the fair value of derivatives designated as fair value hedges are recorded in income and are generally offset by changes in the fair value of the hedged items attributable to the hedged risk. With respect to derivatives designated as cash flow hedges, the effective portion of the changes in fair value is recorded as a separate component of comprehensive earnings and is reclassified to net earnings in the period or periods during which the hedged items are recognized in net earnings. The ineffective portion of the changes in fair value of a hedging item is always recognized in net earnings.

In the third quarter of 2003 , we elected to settle the dividend rate swaps used to hedge $510 million of BCE Inc. Series AA preferred shares and $510 million of BCE Inc. Series AC preferred shares. These dividend rate swaps in effect converted the fixed-rate dividends on these preferred shares to floating-rate dividends. They were to mature in 2007 . As a result of the early settlement, we received total proceeds of $83 million in cash. Since the settlement, all of our derivative contracts qualify for hedge accounting. Under Canadian GAAP , the proceeds are being deferred and amortized against the dividends on these preferred shares over the remaining original terms of the swaps. Under United States GAAP , these dividend rate swaps did not qualify for hedge accounting and were recorded on the balance sheet at fair value. As a result, the amortization of the deferred gain under Canadian GAAP is reversed for purposes of United States GAAP .

(e) Discontinued Operations

Differences between Canadian GAAP and United States GAAP will cause the historical carrying values of the net assets of discontinued operations to be different.

(f) Impact of Adopting Recent Changes to Accounting Standards

Effective July 1, 2003, we adopted FASB Interpretation (FIN) No. 46 , *Consolidation of Variable Interest Entities* , on a prospective basis. This interpretation clarifies how to apply ARB No. 51, *Consolidated Financial Statements*, to variable interest entities when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties.

We determined a transitional loss of $25 million net of tax in the third quarter of 2003. We recorded it as a cumulative effect of a change in accounting policy as of July 1, 2003, as required by the transitional provisions of FIN No. 46. Under Canadian GAAP, the transitional loss is recorded as an adjustment to retained earnings.

(g) Change in Unrealized Gain (Loss) on Investments

Our portfolio investments are recorded at cost under Canadian GAAP. They would be classified as available-for-sale under United States GAAP and would be carried at fair value, with any unrealized gains or losses included in other comprehensive earnings, net of tax.

(h) Goodwill

Under Canadian GAAP and United States GAAP, goodwill created on business acquisitions and the purchase of non-controlling interests of subsidiaries is calculated in a similar manner. Differences between Canadian GAAP and United States GAAP, however, may cause the underlying carrying value of the net assets acquired or the fair value of the consideration given to be different. This will cause the resulting goodwill to be different.

(i) Accounting for Stock-Based Compensation

We adopted the fair value-based method of accounting on a prospective basis, effective January 1, 2002. Under Statement of Financial Accounting Standards (SFAS) No. 123, we are required to make pro forma disclosures of net earnings, and basic and diluted earnings per share, assuming that the fair value-based method of accounting had been applied from the date that SFAS No. 123 was adopted.

The table below shows compensation expense for stock options and pro forma net earnings using the Black-Scholes option pricing model.

	2005	2004	2003
Net earnings as reported	**1,899**	1,607	1,636
Compensation cost included in net earnings	**22**	29	29
Total compensation cost	**(23)**	(38)	(51)
Pro forma net earnings	**1,898**	1,598	1,614
Pro forma net earnings per common share (basic)	**1.96**	1.64	1.67
Pro forma net earnings per common share (diluted)	**1.95**	1.64	1.67

(j) Presentation and Disclosure of Guarantees

Under Canadian GAAP, guarantees do not include indemnifications against intellectual property right infringement, whereas under United States GAAP they are included. At December 31, 2005, such indem-nifications amounted to $1.3 billion, of which $32 million expires in 2006, $100 million in 2007, $26 million in 2008, $26 million in 2009, $173 million after 2009 and $914 million with an indefinite term. We also have guarantees where no maximum potential amount is specified.

(k) Comparative Periods

We have reclassified some of the figures for the comparative periods to make them consistent with the presentation for the current period.

We performed an extensive review of the historical reconciling balances between Canadian GAAP and United States GAAP, which resulted in adjustments to prior periods mainly related to the elimination of differences arising from changes in accounting policies and large transactions. As a result, we increased United States GAAP net earnings by $23 million in 2004 and decreased United States GAAP shareholders' equity by $67 million in 2004 and $90 million in 2003.

BOARD OF DIRECTORS
As at March 1, 2006

Richard J. Currie, O.C.
Toronto,Ontario
Chair of the Board,
BCE Inc. and Bell Canada
Director since May 1995

André Bérard, O.C.
Montréal, Québec
Corporate Director
Director since January 2003

Ronald A. Brenneman
Calgary, Alberta
President and Chief Executive Officer and a director,
Petro-Canada
Director since November 2003

Anthony S. Fell, O.C.
Toronto, Ontario
Chairman of the Board,
RBC Dominion Securities Limited
Director since January 2002

Donna Soble Kaufman
Toronto, Ontario
Corporate Director and Lawyer
Director since June 1998

Brian M. Levitt
Montréal, Québec
Partner and Co-Chair,
Osler, Hoskin & Harcourt LLP
Director since May 1998

The Honourable
Edward C. Lumley, P.C.
South Lancaster, Ontario
Vice-Chairman,
BMO Nesbitt Burns Inc.
Director since January 2003

Judith Maxwell, C.M.
Ottawa, Ontario
Research Fellow, Canadian Policy,
Research Networks Inc.
Director since January 2000

John H. McArthur
Wayland, Massachusetts
Dean Emeritus, Harvard University,
Graduate School of Business Administration
Director since May 1995

Thomas C. O'Neill, F.C.A.
Don Mills, Ontario
Corporate Director and
Chartered Accountant
Director since January 2003

James A. Pattison, O.C., O.B.C.
Vancouver, British Columbia
Chairman and Chief Executive Officer,
The Jim Pattison Group
Director since February 2005

Robert C. Pozen
Boston, Massachusetts
Chairman of the Board,
MFS Investment Management
Director since February 2002

Michael J. Sabia

Montréal, Québec
President and Chief Executive
Officer and a director, BCE Inc.,
and Chief Executive Officer and
a director, Bell Canada
Director since October 2002

Paul M. Tellier, P.C., C.C., Q.C.
Montréal, Québec
Corporate Director
Director since April 1999

Victor L. Young, O.C. *St. John's, Newfoundland and Labrador*
Corporate Director
Director since May 1995

*EXECUTIVES**
As at March 1, 2006

Michael J. Sabia
President and Chief Executive Officer

George A. Cope
President and Chief
Operating Officer,
Bell Canada

Stephen G. Wetmore
Group President — Corporate Performance and
National Markets, Bell Canada

Laurier (Larry) J. Boisvert
President and Chief Executive Officer,
Telesat Canada

Michael T. Boychuk
Senior Vice-President and Treasurer

Mark R. Bruneau
Executive Vice-President and
Chief Strategy Officer

Isabelle Courville
President — Enterprise, Bell Canada

Kevin W. Crull
President — Residential Services,
Bell Canada

William J. Fox
Executive Vice-President —
Communications and
Corporate Development

Leo Houle
Chief Talent Officer

Lawson A.W. Hunter
Executive Vice-President and
Chief Corporate Officer

Robert Odendaal
President — Bell Mobility and
Bell Distribution Inc.,
Bell Canada

Patricia A. Olah
Corporate Secretary

Patrick Pichette
President — Operations, Bell Canada

Eugene Roman
Group President — Systems and Technology,
Bell Canada

Karen H. Sheriff
President — Small and Medium Business,
Bell Canada

Martine Turcotte

Chief Legal Officer

Siim A. Vanaselja
Chief Financial Officer

COMMITTEES OF THE BOARD Members of Committees of the Board

AUDIT COMMITTEE
T.C. O'Neill *(Chair)*, A. Bérard, J. Maxwell, R.C. Pozen,
V. L. Young

The audit committee assists the board in the oversight of:

• the integrity of BCE 's financial statements and related information

• BCE's compliance with applicable legal and regulatory requirements

• the independence, qualifications and appointment of the external auditor

• the performance of the internal and external auditors

• management's responsibility for reporting on internal controls and risk management.

PENSION FUND COMMITTEE

R.C. Pozen *(Chair)*, B.M. Levitt, J.A. Pattison, P.M. Tellier

The PFC assists the board in the oversight of:

• the administration, funding and investment of our pension plans and fund

• the unitized pooled fund sponsored by BCE for the collective investment of the fund in which certain of BCE's subsidiaries' pension funds invest.

CORPORATE GOVERNANCE COMMITTEE

D. Soble Kaufman *(Chair)*, A. Bérard, A.S. Fell, The Honourable E.C. Lumley, J.H. McArthur

The CGC assists the board in:

• developing and implementing our corporate governance guidelines

• identifying individuals qualified to become directors

• determining the composition of the board and its committees

• determining the directors' remuneration for board and committee service

• developing and overseeing a process to assess the board chair, the board committees, chairs of committees and individual directors

• overseeing our policies concerning business conduct, ethics, public disclosure of material information and other matters.

MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

R.J. Currie *(Chair)*, R.A. Brenneman, A.S. Fell, J.H. McArthur, V. L. Young

The MRCC assists the board in the oversight of the:

• compensation, nomination, evaluation and succession of officers and other management personnel

• BCE 's health and safety policies and practices.

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* *For a complete list of BCE Inc.'s and Bell Canada's officers, please see BCE Inc.'s and Bell Canada's respective Annual Information Forms for the year ended December 31, 2005 .*

2006 SHAREHOLDER MEETING

The shareholder meeting will take place at 9:30 a.m. (Eastern time), Wednesday, June 7, 2006, at Le Centre Sheraton Montréal, 1201 René-Lévesque Blvd. West, Montréal, Québec, in the ballroom.

The meeting will also be webcast live on our website, *www.bce.ca*.

We offer various ways to vote your shares. For more details, consult BCE's proxy circular or visit our website.

2006 QUARTERLY EARNINGS RELEASE DATES

First quarter	May 3, 2006
Second quarter	August 2, 2006
Third quarter	November 1, 2006
Fourth quarter	February 7, 2007

Quarterly and annual reports as well as other corporate documents can be found on our website. If you wish to be notified electronically when documents are posted, register online at *www.bce.ca* for our service 'News Alerts'. Corporate documents can also be requested from the Investor Relations group.

SHARE FACTS

Symbol

BCE

Listings

TSX, NYSE, and the Zurich (SWX) stock exchange

You will find a summary of the differences between our governance practices and the NYSE corporate governance rules in the governance section of BCE's website at *www.bce.ca*.

Common Shares Outstanding

927,318,916 as at December 31, 2005

Stock Splits

Three-for-one on April 26, 1979 and two-for-one on May 15, 1997

*Quarterly Dividend**

$0.33 per common share

*2006 Dividend Schedule**

Record Date	*Payment Date*
March 15, 2006	April 15, 2006
June 15, 2006	July 15, 2006
September 15, 2006	October 15, 2006
December 15, 2006	January 15, 2007

** Subject to approval by the Board of Directors*

TAX INFORMATION

Dividends and Capital Gains on Your BCE Shares

BCE common shareholders are required to pay tax on dividends as well as any capital gains they realize when they sell their shares or are deemed to have sold them. If you received Nortel Networks common shares in May 2000, you should contact the Investor Relations group to learn more on the tax implications of the BCE /Nortel Plan of Arrangement or visit *www.bce.ca*.

Foreign Investors

Dividends on BCE shares paid or credited to nonresidents of Canada are subject to a 25% withholding tax unless reduced by treaty. Under current tax treaties, U.S. and U.K. residents are subject to a 15% withholding tax.

U.S. Investors

BCE is required to solicit taxpayer identification numbers (TIN) and Internal Revenue Service (IRS) Form W-9 certifications of residency from certain U.S. investors. Where these have not been received, BCE may be required to deduct the IRS' specified backup withholding tax.

For additional information, please contact BCE Investor Relations or the transfer agent, Computershare Trust Company of Canada.

Normal Course Issuer Bid

On February 1, 2006, BCE received acceptance from the Toronto Stock Exchange (TSX) of its *Notice of Intention to Make a Normal Course Issuer Bid*. The filing of this notice allows BCE to purchase, from February 3, 2006 until February 2, 2007, up to 46,000,000 of its common shares, representing approximately 5% of BCE's 927,321,825 common shares outstanding as of the close of market on January 16, 2006. As a result of transactions that have recently been completed, BCE has funds available for which the purchase of common shares represents an appropriate use of corporate funds. Purchases under the normal course issuer bid will be made at the discretion of BCEs' management on the open market through the facilities of the TSX and/or the New York Stock Exchange (NYSE). A copy of the *Notice of Intention* is available on SEDAR at *www.sedar.com*.

You can also obtain a copy on request without charge from BCE's Investor Relations group.

SHAREHOLDER SERVICES

Dividend Reinvestment and Stock Purchase Plan

This plan provides a convenient method for eligible holders of BCE common shares to reinvest their dividends and make optional cash contributions to purchase additional common shares without brokerage costs.

Dividend Direct Deposit Service

Avoid postal delays and trips to the bank by joining the dividend direct deposit service.

E-Delivery Service

Enrol in our e-delivery service to receive the proxy material, the annual report and/or quarterly documents by e-mail. By doing so, you will receive your documents faster and in an environmentally friendly manner while helping your company reduce printing and postage costs.

Duplicate Mailings

Help us control costs and eliminate duplicate mailings by consolidating your accounts.

For more details on any of these services, registered shareholders (holders of share certificates) must contact the transfer agent. Non-registered shareholders must contact their brokers.

CONTACT INFORMATION

Transfer Agent and Registrar

For information on shareholder services or any other inquiries regarding your account (including stock transfer, address change, lost certificates and tax forms), contact:

Computershare Trust Company of Canada

9th Floor, 100 University Avenue Toronto, Ontario M5J 2Y1

e-mail	bce@computershare.com
tel	(514) 982-7555 or 1 800 561-0934
	(toll free in Canada and the U.S.)
fax	(416) 263-9394 or 1 888 453-0330
	(toll free in Canada and the U.S.)
	or visit their website at www.computershare.com

BCE Investor Relations

1000 de La Gauchetière Street West, Suite 3700,
Montréal (Québec) H3B 4Y7

e-mail	investor.relations@bce.ca
tel	1 800 339-6353
fax	(514) 786-3970
	or visit the Investors section on our website at www.bce.ca

Trademarks: The following is a list of all our trademarks referred to and used as such in this annual report. Aliant is a trademark of Aliant Inc. BCE is a trademark of BCE Inc. The Rings and Head Design, 10-4 & Design, Bell Canada Enterprises corporate logo, Bell, Bell Canada, Bell Globemedia, Bell Making It Simple, Bell Mobility, Bell Nordiq, Bell West, Bell World, Emily, GoTrax, Group Telecom, Kidsmania, Seek & Find, Sympatico, VDN & Design are trademarks of Bell Canada. ExpressVu is a trademark of Bell ExpressVu Limited Partnership. The Globe and Mail *is a trademark of Bell Globemedia Publishing Inc. Mobile Browser is a trademark of Bell Mobility Inc. CTV is a trademark of CTV Inc. Expertech is a trademark of Expertech Network Installation Inc. Northwestel is a trademark of Northwestel Inc. Infostream is a trademark of Infostream Technologies Inc. Solo and Solo Mobile are trademarks of Solo Branding Inc. Télébec is a trademark of Telebec Limited Partnership. Anik, Nimiq and Telesat are trademarks of Telesat Canada. TSN and RDS are trademarks of The Sports Network Inc. Any other trademarks, or corporate, trade or domain names used in this report are the property of their owners. We believe that our trademarks and domain names are very important to our success. Our exclusive trademark rights are perpetual provided that their registrations are timely renewed and that the trademarks are used in commerce by us or our licensees. We take appropriate measures to protect, renew and defend our trademarks. We also spend considerable time and resources overseeing, registering, renewing, licensing and protecting our trademarks and domain names and prosecuting those who infringe on them. We take great care not to infringe on the intellectual property and trademarks of others.*

Cette publication est disponible en français. BCE's Annual Report is printed with vegetable-based ink and is recyclable. Printed in Canada

Typesetting: Inc. Moveable



BCE's website has extensive information about the company's governance practices, community investment, and corporate responsibility.

Building The New Bell: 2006 Business Update *is an in-depth presentation of our strategy and is available at www.bce.ca/businessupdate.*

BCE I nc. 1000 de La Gauchetière Street West, Suite 3700, Montréal (Québec) H3B 4Y7 *www.bce.ca*

Communications *e-mail* bcecomms@bce.ca *tel* 1 888 932-6666 *fax* (514) 870-4385

Investor Relations *e-mail* investor.relations@bce.ca *tel* 1 800 339-6353 *fax* (514) 786-3970

Exhibit 99.2

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use in this annual report of BCE Inc. on Form 40-F of our comments by auditors for U.S. readers on Canada-U.S. reporting differences and auditors' report both dated January 31, 2006 on the consolidated balance sheets of BCE Inc. as at December 31, 2005 and 2004, and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended December 31, 2005 which appear in this annual report of BCE Inc. on Form 40-F for the year ended December 31, 2005.

We also consent to the incorporation by reference in Registration Statements No. 333-12130 on Form F-3 and No. 333-12780, 333-12802 and 333-12804 on Form S-8 of BCE Inc. of our comments by auditors for U.S. readers on Canada-U.S. reporting differences and auditors' report both dated January 31, 2006 appearing in the annual report on Form 40-F of BCE Inc. for the year ended December 31, 2005.

(signed) Deloitte & Touche LLP
Deloitte & Touche LLP

Montreal, Canada
March 10, 2006

Exhibit 99.3

COMMENTS BY AUDITORS FOR U.S. READERS
ON CANADA-U.S. REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the financial statements, such as the changes described in Note 1 to BCE Inc.'s consolidated financial statements or when there is a retroactive restatement such as described in Note 1. Our report to the shareholders dated January 31, 2006 is expressed in accordance with Canadian reporting standards, which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

BCE Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BCE Inc.'s internal control over financial reporting. Accordingly we express no such opinion.

(signed) Deloitte & Touche LLP
Deloitte & Touche LLP

Montreal, Canada
January 31, 2006

Exhibit 99.31

CERTIFICATION

I, Michael J. Sabia, President and Chief Executive Officer of BCE Inc., certify that:

1. I have reviewed this annual report on Form 40-F of BCE Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) [Reserved]

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

March 10, 2006

(signed) Michael J. Sabia

Michael J. Sabia
President and Chief Executive Officer
BCE Inc.

Exhibit 99.31

CERTIFICATION

I, Siim A. Vanaselja, Chief Financial Officer of BCE Inc., certify that:

1. I have reviewed this annual report on Form 40-F of BCE Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) [Reserved]

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

March 10, 2006

(signed) Siim A. Vanaselja

Siim A. Vanaselja
Chief Financial Officer
BCE Inc.

Exhibit 99.32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of BCE Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

the annual report on Form 40-F for the year ended December 31, 2005 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 40-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2006

(signed) Michael J. Sabia

Michael J. Sabia
President and Chief Executive Officer
BCE Inc.

Dated: March 10, 2006

(signed) Siim A. Vanaselja

Siim A. Vanaselja
Chief Financial Officer
BCE Inc.