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2006

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, 2006** 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, 2006, 807,643,941 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 ("BCE") annual report on Form 40-F for the year ended December 31, 2006, 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:

- the Annual Information Form of BCE for the year ended December 31, 2006 (the "AIF") included herein;
- BCE's annual audited consolidated financial statements for the year ended December 31, 2006 and the related management's discussion and analysis of financial condition and results of operations included in the Bell Canada Enterprises 2006 Annual Report to shareholders attached hereto as Exhibit 99.1 (the "BCE 2006 Annual Report");
- the reports of BCE's management and of BCE's external auditors on the annual audited consolidated financial statements for the year ended December 31, 2006 included in the BCE 2006 Annual Report;
- the reports of BCE's management and of BCE's external auditors concerning internal control over financial reporting included in the BCE 2006 Annual Report; and
- BCE's Reconciliation of Canadian GAAP to United States GAAP attached hereto as Exhibit 99.3 and the related report of BCE's external auditors attached hereto as Exhibit 99.4;

no other information from the Exhibits attached hereto is to be incorporated by reference in a registration statement or prospectus filed by BCE 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's annual audited consolidated financial statements for the year ended December 31, 2006 (the "Financial Statements"), including the external auditors' report with respect thereto, see pages 65 to 105 and part of page 64, respectively, of the BCE 2006 Annual Report, which pages are incorporated herein by reference.

B. Management's Discussion and Analysis

For management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2006 ("MD&A"), see pages 2 to 61 and 106 and 107 of the BCE 2006 Annual Report, which pages are incorporated herein by reference.

RECONCILIATION OF CANADIAN GAAP TO UNITED STATES GAAP

Refer to the document entitled "Reconciliation of Canadian GAAP to United States GAAP" reconciling the significant differences between Canadian and United States generally accepted accounting principles attached hereto as Exhibit 99.3, which is incorporated herein by reference, and to the external auditors' report with respect thereto attached hereto as Exhibit 99.4, which is also incorporated herein by reference.

DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to management, including BCE's President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure.

As of December 31, 2006, an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the *U.S. Securities Exchange Act of 1934* and under *Multilateral Instrument 52-109* adopted by the Canadian Securities Administrators, was carried out under the supervision of and with the participation of management, including the President and CEO and the CFO. Based on that evaluation, the President and CEO and the CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006 and ensure that information is recorded, processed, summarized and reported within the time periods specified under U.S. and Canadian securities laws.

INTERNAL CONTROL OVER FINANCIAL REPORTING

A. Management's report on internal control over financial reporting

The report of BCE's management entitled "Management's Report On Internal Control Over Financial Reporting" appearing at page 62 of the BCE 2006 Annual Report is incorporated herein by reference.

B. Auditors' report on internal control over financial reporting

The report of BCE's external auditors concerning BCE's internal control over financial reporting appearing at page 63 of the BCE 2006 Annual Report is incorporated herein by reference.

C. Changes in internal control over financial reporting

No changes were made in our internal control over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

STATEMENT REGARDING CONTROLS AND PROCEDURES

There can be no assurance that our disclosure controls and procedures will detect or uncover all failures to disclose all material information otherwise required to be set forth in our disclosure. Further, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation. Accordingly, BCE does not expect that BCE's internal control over financial reporting will prevent or detect all errors and all fraud. BCE will continue to periodically review its disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.

AUDIT COMMITTEE FINANCIAL EXPERT

BCE'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'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's executive officers, including the President and CEO, CFO, Controller and Treasurer. The Code of Conduct is available in the governance section of BCE's website at www.bce.ca.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Auditors' fees

The table below shows the fees that BCE's external auditors, Deloitte & Touche LLP, billed to BCE and its subsidiaries for various services for each year in the past two fiscal years. Fees for audit services increased in 2006 primarily due to additional audit work on internal control over financial reporting as a result of the requirements of the Sarbanes-Oxley Act.

(millions)	2006	2005
Audit fees	$ 13.6	$ 10.0
Audit-related fees	$ 5.2	$ 1.7
Tax fees	$ 0.9	$ 1.4
Other fees	—	—
TOTAL	$ 19.7	$ 13.1*

* Restated to exclude fees billed to BCE for work related to CTVGlobemedia Inc. (formerly BellGlobemedia Inc.)

Audit fees

These fees include professional services provided by the external auditors for the review of the interim financial statements, statutory audits of the annual financial statements, the audit of the effectiveness of internal control over financial reporting, 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 tax compliance, tax advice and assistance with tax audits and appeals. Prior to October 2005, these fees included fees for services with respect to compliance with our conflict of interest policy for senior management, which services are no longer provided by the external auditors.

Other fees

These fees include any other fees for permitted services not included in any of the above-stated categories. No such services were provided in the last two fiscal years.

Auditor Independence Policy

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

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

In particular, the policy specifies that:

- the external auditors 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 external 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 auditors; and
- at each regularly scheduled audit committee meeting, a consolidated summary of all fees paid to the external auditors 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's website at www.bce.ca.

In 2005 and 2006, BCE'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" at page 38 of BCE's MD&A (which is incorporated by reference in BCE's AIF) and Notes 11, 22 and 27, entitled "Accounts Receivable", "Financial Instruments" and "Guarantees", respectively, of the Financial Statements, all contained in the BCE 2006 Annual Report, for a discussion of off-balance sheet arrangements.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Please see the section entitled "Contractual Obligations" at pages 37 and 38 of BCE's MD&A (which is incorporated by reference in BCE's AIF), contained in the BCE 2006 Annual Report, for a tabular disclosure and discussion of contractual obligations.

IDENTIFICATION OF THE AUDIT COMMITTEE

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

UNDERTAKING

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

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

BCE 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 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 and Risks underlying our Forward-Looking Statements" on pages 41 to 47 of the AIF for a discussion of certain of such assumptions and risk factors. Reference is also made to the various assumptions and risk factors discussed throughout the AIF and MD&A (which is incorporated by reference in BCE's AIF), contained in the BCE 2006 Annual Report, including in particular to the sections of BCE's AIF entitled "The Competitive Environment we operate in" and "The Regulatory Environment we operate in" on pages 28 to 36 of the AIF.

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2006 Annual Information Form

BCE Inc.

For the year ended December 31, 2006

March 7, 2007



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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, company* and *BCE* mean BCE Inc., its subsidiaries, joint ventures and associated companies. References to Bell Aliant include matters relating to, and actions taken by, both Aliant Inc. (Aliant) and its affiliated entities prior to July 7, 2006, and Bell Aliant Regional Communications Income Fund and its affiliated entities, on and after such date.

All dollar figures are in Canadian dollars, unless stated otherwise. The information in this AIF is as of March 7, 2007, unless stated otherwise, and except for information in documents incorporated by reference that have a different date.

The meanings of certain capitalized terms used in this AIF can be found in the Glossary which is in Schedule 2 of this AIF.

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
Bell Canada Enterprises 2006 Annual Report — *Management's Discussion and Analysis* pages 2 to 61	*Management's Discussion and Analysis*, page 48

Our annual report is available on SEDAR at www.sedar.com, on EDGAR at www.sec.gov and on BCE Inc.'s website at www.bce.ca.

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
Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP)	Aliant Aliant Telecom Aliant Mobility
BCE Inc.	BCE
Bell Canada	Rings & head design Bell Canada Enterprises corporate logo Bell Bell Mobility Bell World Espace Bell Sympatico Sympatico.ca 10-4 & design
Bell ExpressVu Limited Partnership	ExpressVu
Bell Mobility Inc.	Mobile Browser
Solo Branding Inc.	Solo Solo Mobile
Telesat Canada	Anik Nimiq Telesat

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

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. 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.* 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. It is important to know that:

- **unless otherwise indicated, forward-looking statements in this AIF describe our expectations at March 7, 2007.**
- 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 or revise 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 and 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, 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 the section entitled *Assumptions and Risks underlying our Forward-Looking Statements.* Important additional risks and assumptions are also discussed under the sections entitled *The Competitive Environment we operate in* and *The Regulatory Environment we operate in.*

About **BCE**

BCE is Canada's largest communications company. Bell Canada, which encompasses our core business operations, is the nation's leading provider of wireline and wireless communications services, Internet access, data services and video services to residential and business customers. At December 31, 2006, we reported Bell Canada's results of operations in four segments, each reflecting a distinct customer group: *Residential, Business, Bell Aliant,* and *Other Bell Canada.* All of our other activities were reported in the *Other BCE* segment. Our reporting structure reflects how we managed our business in financial year 2006 and how we classified our operations for planning and measuring performance. Starting in the third quarter of 2006, our segment reporting was modified to reflect the formation of Bell Aliant and it is reported as a separate segment.

In 2006, we had consolidated operating revenues of $17.7 billion. We had total assets of $37.0 billion and 54,434 employees at December 31, 2006.

The table below shows the operating revenues that each segment contributed to total operating revenues for the year ended December 31, 2006.

OPERATING REVENUES (IN $ MILLIONS)	**2006**	2005
Residential	**$ 7,099**	$ 7,016
Business	**$ 6,057**	$ 5,966
Bell Aliant	**$ 3,358**	$ 3,320
Other Bell Canada	**$ 1,592**	$ 1,651
Inter-segment eliminations — Bell Canada	**$ (758)**	$ (719)
Bell Canada	**$17,348**	$17,234
Other BCE	**$ 535**	$ 538
Inter-segment eliminations — other	**$ (170)**	$ (167)
Total operating revenues	**$17,713**	$17,605

The *Residential* segment provides local telephone, long distance, wireless, Internet access, video and other services to Bell Canada's residential customers, mainly in urban Ontario and Québec. Wireless services 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).

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

The *Bell Aliant* segment provides local telephone, long distance, data (including Internet access), and other information technology (IT) and communication services to residential and business customers in the Atlantic provinces and in rural Ontario and Québec. Bell Aliant combines Bell Canada's former regional wireline operations in the less populated areas of Ontario and Québec with Aliant's former wireline, IT and related operations in Atlantic Canada, and also includes Bell Canada's former 63.4% interest in NorthernTel, Limited Partnership (NorthernTel) and Télébec, Limited Partnership (Télébec) held indirectly through Bell Nordiq Group Inc. At December 31, 2006, BCE owned approximately 45% of Bell Aliant. The remaining 55% was publicly held. For more details on the formation of Bell Aliant, see *Business highlights — 2006 highlights — Key acquisitions and dispositions.* Also see *Our corporate structure* for more information regarding our ownership of Bell Aliant.

The *Other Bell Canada* segment includes Bell Canada's wholesale business, and the financial results of Northwestel Inc. (Northwestel). Our wholesale business provides local telephone, long distance, wireless, Internet, data and other services to competitors who resell these services. Northwestel provides telecommunications services to less populated areas of Canada's northern territories. At December 31, 2006, Bell Canada owned 100% of Northwestel.

The *Other BCE* segment includes the financial results of our satellite businesses, as well as our corporate office. This segment includes Telesat Canada (Telesat). 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.

On December 18, 2006, BCE Inc. announced the sale of Telesat to a new company formed by Canada's Public Sector Pension Investment Board (PSP Investments) and Loral Space & Communications Inc. for $3.25 billion. The sale is subject to regulatory approval both in Canada and the United States and other closing conditions including the absence of a material adverse change affecting Telesat's business. For more details, see *Business highlights — 2006 highlights — Key acquisitions and dispositions* and *About our Businesses — Other BCE segment*.

A transaction involving the reorganization of the ownership of CTVglobemedia Inc. (CTVglobemedia) (formerly Bell Globemedia Inc. (Bell Globemedia)) was announced on December 2, 2005 and completed on August 30, 2006. As of August 31, 2006, we have accounted for CTVglobemedia as a discontinued operation and no longer consolidate its financial results. Our remaining 15% investment is accounted for at cost. For more details, see *Business highlights — 2006 highlights — Key acquisitions and dispositions.*

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, by a Certificate and Articles of Arrangement dated July 10, 2006 and by a Certificate and Articles of Amendment dated January 25, 2007. BCE Inc.'s head and registered offices are at 1000, rue de La Gauchetière Ouest, Bureau 3700, Montréal, Québec H3B 4Y7. BCE Inc.'s auditors are Deloitte & Touche LLP.

BCE Inc. will, at its next annual shareholder meeting, submit a proposal to its shareholders to change its name to Bell Canada Inc. Bell Canada intends to change its name to Bell Inc. at the same time as BCE Inc.'s name is changed. For more details, see *Business highlights — 2006 highlights — Strategic announcements.*

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, 2006.

SUBSIDIARY	WHERE IS IT INCORPORATED OR REGISTERED	PERCENTAGE OF VOTING SECURITIES OR PARTNERSHIP INTEREST THAT BCE INC. HELD AT DECEMBER 31, 2006(1)
BellCanada(2)	Canada	100%
Bell Mobility	Canada	100%
Bell ExpressVu(3)	Ontario	100%(4)

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

(2) At December 31, 2006, all of the voting securities of Bell Canada were owned by Bell Canada Holdings Inc. (BCH), a wholly-owned subsidiary of BCE Inc. As part of our corporate simplification process, BCH has been eliminated and since February 1, 2007 all of the voting securities of Bell Canada are directly held by BCE Inc.

(3) This partnership represents 10% or less of our total consolidated assets and 10% or less of our total consolidated operating revenues. We have included it to provide a better understanding of our overall corporate structure.

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

As at December 31, 2006, BCE also owned approximately 45% of the voting securities of Bell Aliant on a fully-diluted basis. For so long as we own a 30% or greater interest in Bell Aliant and provided that certain major commercial agreements are in place, we have the right to appoint a majority of the directors and to nominate a majority of the trustees of Bell Aliant. We also have the ability to veto certain actions of Bell Aliant (business plans, significant corporate transactions, material changes in business, leverage in excess of 2.5 times debt to earnings before interest, taxes, depreciation and amortization (EBITDA), appointment and change of Chief Executive Officer and entering into material commercial agreements with competitors of BCE) as long as we own a 20% or greater interest in Bell Aliant. For more details, see *Business highlights — 2006 highlights — Key acquisitions and dispositions.*

On December 12, 2006, BCE Inc. announced that it intends, at its next annual shareholder meeting, to submit a proposal to its shareholders to change its name to Bell Canada Inc. In addition, under a plan of arrangement effective January 31, 2007, holders of Bell Canada's Class A preferred shares exchanged their preferred shares of Bell Canada for new first preferred shares of BCE Inc. with the same series rights. For more details, refer to *Our capital structure* and *Business highlights — 2006 highlights — Strategic announcements.*

Our directors and officers

The table below shows the number and percentage of securities BCE Inc.'s directors and officers as a group beneficially owned, directly or indirectly, or exercised control or direction over as at December 31, 2006:

BCE Inc.	1,639,571 Common shares	0.2030%
Bell Canada International Inc. (BCI)(1)	38 Common shares	0.0001%

(1) As at December 31, 2006, BCE Inc. owned approximately 62% of the outstanding common shares of BCI.

As at December 31, 2006, BCE Inc.'s directors and officers as a group also beneficially owned, directly or indirectly, or exercised control or direction over 125,320 units (or 0.0558%) of Bell Aliant Regional Communications Income Fund.

Directors

The table below lists BCE Inc.'s directors, where they lived, the date they have been elected or appointed and their current principal occupation on March 7, 2007.

DIRECTORS

NAME AND PROVINCE/STATE AND COUNTRY OF RESIDENCE	DATE ELECTED OR APPOINTED TO THE BCE INC. BOARD	CURRENT PRINCIPAL OCCUPATION
André Bérard, O.C., Québec, Canada	January 2003	Corporate director, since March 2004
Ronald A. Brenneman, Alberta, Canada	November 2003	President and Chief Executive Officer, Petro-Canada (petroleum company), since January 2000
Richard J. Currie, O.C., (1) Ontario, Canada	May 1995	Chair of the board, BCE Inc. and Bell Canada, since April 2002
Anthony S. Fell, O.C., (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	Corporate director (since July 1997) and lawyer
Brian M. Levitt, Québec, Canada	May 1998	Partner and Co-Chair, Osier, Hoskin & Harcourt LLP (law firm), since January 2001
The Honourable Edward C. Lumley, P.C., (2) Ontario, Canada	January 2003	Vice-Chairman, BMO Nesbitt Burns Inc. (investment bank), since December 1991
Judith Maxwell, C.M., 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, F.C.A., Ontario, Canada	January 2003	Corporate director (since October 2004) and chartered accountant
James A. Pattison, O.C., O.B.C., (3) British Columbia, Canada	February 2005	Chairman and Chief Executive Officer, The Jim Pattison Group (diversified consumer-oriented company), since May 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), BCE Inc., and Chief Executive Officer (since May 2002), Bell Canada
Paul M. Tellier, PC., C.C., Q.C., Québec, Canada	April 1999	Corporate director, since December 2004
Victor L. Young, O.C., Newfoundland and Labrador, Canada	May 1995	Corporate director, since May 2001

(1) Was a director or executive officer of Teleglobe Inc. or certain of its affiliates on, or during the year preceding, May 15, 2002, the date when Teleglobe Inc. 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 and a director of George Weston Limited (food distribution, retail and production company) from 1996 to May 2002 President and a director of Loblaw Companies Limited (grocery chain) from 1976 to January 2001
Ms. J. Maxwell	Founder and 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
Mr. R.C. Pozen	Visiting professor, Harvard Law School from 2002 to August 2004
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 (railroad company) from 1992 to December 2002

Committees of the board

The table below lists the committees of BCE Inc.'s 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 A.S. Fell J. Maxwell V.L. Young
Corporate governance	D. Soble Kaufman (Chair) A. Bérard The Honourable E.C. Lumley J.H. McArthur J.A. Pattison
Management resources and compensation	R.J. Currie (Chair) R.A. Brenneman A.S. Fell J.H. McArthur R.C. Pozen
Pension fund	R.C. Pozen (Chair) R.A. Brenneman B.M. Levitt P.M. Tellier V.L. Young

Officers

The table below lists BCE Inc.'s executive officers, where they lived and the office that they held at BCE Inc. on March 7, 2007.

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	Senior Vice-President and Controller
William J. Fox	Ontario, Canada	Executive Vice-President — Communications and Corporate Development
Leo W. Houle	Québec, Canada	Chief Talent Officer
Lawson A.W. Hunter	Ontario, Canada	Executive Vice-President and Chief Corporate Officer
Patricia A. Olah	Québec, Canada	Corporate Secretary and Lead Governance Counsel
L. Scott Thomson	Ontario, Canada	Executive Vice-President — Corporate Development and Planning
Wayne L. Tunney	Québec, Canada	Senior Vice-President — Taxation
Marline Turcotte	Québec, Canada	Chief Legal Officer
Siim A. Vanaselja	Québec, Canada	Chief Financial Officer
Nicholas Zelenczuk	Ontario, Canada	Senior Vice-President — Audit and Risk Management

(1) Was a director or executive officer of Teleglobe Inc. or certain of its affiliates on or during the year preceding May 15, 2002, the date when Teleglobe Inc. 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. 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 Railway Company before January 2003
- Mr. Hunter who was a partner with Stikeman Elliott LLP (law firm) before March 2003
- Mr. Thomson who was Vice-President of Mergers and Acquisitions of Goldman, Sachs & Co. in both Toronto and New York before January 2003
- Mr. Tunney who was partner in the Tax Group of KPMG before October 2006
- Mr. Zelenczuk who was a partner in the Advisory Services Group of KPMG before February 2006.

Our employees

The table below shows the number of our employees as at December 31, 2006, 2005 and 2004.

NUMBER OF EMPLOYEES AT DECEMBER 31	**2006**	2005	2004
Total	**54,434**	56,044(1)	50,684

(1) Includes increases due to acquisitions made during the year.

Approximately 46% of our employees are represented by unions and are covered by collective agreements.

The collective agreements between the Communications, Energy and Paperworkers Union of Canada (CEP) and Expertech Network Installation Inc. (Expertech) representing approximately 160 clerical and 1,300 craft and services employees have both expired on November 30, 2006. The parties have been in negotiations since November 2006. A first offer by Expertech was rejected by both bargaining units' employees on December 20, 2006.

On February 26, 2007, the craft and services employees rejected Expertech's final offer at 64.5% whereas its clerical employees accepted the offer at 78.3%. Expertech's craft and services employees will obtain their right to strike if and once the CEP gives 72-hours notice to Expertech indicating the date after which a strike will occur.

As a result of this vote, Expertech declared it was unable to restructure its operations and announced the wind-down of its operations. Bell Canada announced that it would work with Expertech toward an orderly and timely wind-down of its activities and would transfer its work to many local suppliers in Québec and Ontario.

On March 5, 2007, the CEP and Expertech announced that an agreement had been reached on some refinements to Expertech's final offer that, if accepted by union members, would allow Expertech to avoid closure. This offer has been put to a vote by the craft and services employees. The results will be announced on March 19, 2007.

As part of the bargaining process, the CEP filed, in December 2006, a single employer and a sale of business application before the Canada Industrial Relations Board (CIRB) against Bell Canada and Expertech. Hearings are scheduled in May and June 2007. Should the CEP be

successful with these applications, Bell Canada could be bound by the collective agreements now covering Expertech's employees.

An arbitration decision was received by Expertech in December 2006 under which it was ordered to make the Bell Canada 2004 Voluntary Early Retirement (VER) program available to all employees covered by the craft and services collective agreement.

The following collective agreements were signed in 2006:

- The collective agreement between the Canadian Telecommunications Employees' Association (CTEA) and Bell Canada, representing approximately 700 communications sales employees expired on December 31, 2006. A new two-year collective agreement was signed on December 13, 2006. The new collective agreement will expire on December 31, 2008.
- The collective agreement between the CTEA and Connexim Inc. (Connexim), representing approximately 200 clerical employees expired on May 31, 2006. A new five-year collective agreement was signed on June 1, 2006. The new collective agreement will expire on May 31, 2011.
- The collective agreement between the Teamsters Québec Local 1999 and Télébec representing approximately 200 technicians expired on July 22, 2006. A new collective agreement was signed on October 5, 2006. The new collective agreement will expire on July 22, 2013.

On January 21, 2005, the CEP filed a single employer application with the CIRB concerning Bell Canada, Bell West Inc. (now the Bell West division of Bell Canada), Smiston Communications Inc. (Smiston) and GT Group Telecom Services Corporation (Group Telecom) to represent the craft and service 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. In December 2006, the CEP filed a request for certification to represent approximately 120 employees of Bell Canada in the Western operations. On February 1, 2007, the CEP was certified to represent 129 technicians of Bell Canada in the West. Both parties will meet in mid-March to start the bargaining process for the signature of a first collective agreement. The CEP has withdrawn its single employer application that had been filed with the CIRB.

The following collective agreements have expired or will expire in 2007:

- The collective agreement between the CEP and NorthernTel representing approximately 130 craft, clerical and sales employees expired on February 28, 2007. Negotiations are scheduled to begin on April 2, 2007.
- The collective agreement between the CTEA and Télébec representing approximately 250 clerical employees will expire on November 1, 2007.
- The collective agreement between the CEP and Bell Canada representing approximately 6,000 craft and services employees will expire on November 30, 2007.
- The collective agreement between the CEP and Connexim representing approximately 70 craft employees will expire on November 30, 2007.
- The collective agreement between the CEP and Bell Aliant LP representing approximately 660 craft and services employees in Ontario and Québec will expire on November 30, 2007.
- The collective agreement between the CEP and Bell Aliant LP representing approximately 3,500 craft, clerical and operator employees in the four Atlantic provinces will expire on December 31, 2007.

Our capital structure

This section describes BCE Inc.'s and Bell Canada's securities, the ratings that certain rating agencies have attributed to such securities and the trading of such securities on the Toronto Stock Exchange (TSX).

BCE Inc. securities

BCE Inc.'s articles, as amended, 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.

BCE Inc. preferred shares

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

On January 25, 2007, the articles of BCE Inc. were amended to create the series AE, AF, AG, AH, AI and AJ first preferred shares. These new series of preferred shares were created in connection with a plan of arrangement of Bell Canada where all of the issued and outstanding series of preferred shares of Bell Canada were exchanged for equivalent new first preferred shares of BCE Inc. (BCE new preferred shares). This plan of arrangement became effective on January 31, 2007. As a result of the implementation of the plan of arrangement and of the provision by BCE Inc. of certain guarantees of Bell Canada's public debt securities effective February 1, 2007, Bell Canada no longer has to prepare and file public disclosure documents separate from those of BCE Inc. For more details, see *Business highlights — 2006 highlights — Strategic announcements.*

The table below is a summary of the principal terms of BCE Inc.'s first preferred shares at December 31, 2006. There were no second preferred shares issued and outstanding at December 31, 2006. BCE Inc.'s articles describe the terms and conditions of these shares in detail.

						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	**2006**	2005
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, 2011	At any time	$25.50	8,000,000	2,279,791	**57**	200
T	4.502%	Series S	November 1, 2011	November 1, 2011	$25.00	8,000,000	5,720,209	**143**	–
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 are non-voting, except under special circumstances, for example if BCE Inc. fails to make dividend payments, then the holders are entitled to one vote per share.

Entitlement to dividends

Holders of Series R, T, 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.

Holders of Series S and Y shares are entitled to floating adjustable cumulative monthly dividends. The floating dividend rate on these shares is calculated every month, as set out in BCE Inc.'s articles.

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

Conversion features

All of the issued and outstanding preferred shares 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.

Redemption features

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

BCE Inc. may redeem Series S and Y shares at any time at $25.50 per share. 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.

BCE Inc. 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 following table provides details about the outstanding common shares of BCE Inc. at December 31, 2006 and 2005. No Class B shares were outstanding at December 31, 2006 and 2005.

	2006		2005	
	NUMBER OF SHARES	STATED CAPITAL (IN $ MILLIONS)	NUMBER OF SHARES	STATED CAPITAL (IN $ MILLIONS)
Outstanding, beginning of year	**927,318,916**	**16,806**	925,935,682	16,781
Shares issued under employee stock option plan (1)	**1,246,932**	**35**	1,383,234	25
Shares repurchased and cancelled	**(45,151,666)**	**(805)**	—	—
Share reduction (2)	**(75,770,241)**	**(2,549)**	—	—
Outstanding, end of year	**807,643,941**	**13,487**	927,318,916	16,806

(1) Includes a $6 million reclassification from contributed surplus relating to the exercise of employees' stock options.

(2) Reduction of BCE Inc. common shares outstanding, in conjunction with a distribution of Bell Aliant fund units, by way of return of capital, to holders of BCE Inc. common shares.

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.*

BCE Inc. debt securities

On December 28, 2006, BCE Inc. redeemed all of its outstanding 6.75% Series B Notes due October 30, 2007 in the principal amount of $1.050 billion at a price equal to $1,017.210 per $1,000 Notes plus $10.911 for accrued and unpaid interest.

BCE Inc. has issued long-term debt securities as summarized in the table below which remain outstanding.

	INTEREST RATE	MATURITY	$ MILLIONS
Series C Notes	7.35%	October 30, 2009	650

The Series C Notes issued by BCE Inc. are unsecured. BCE Inc. has the option to redeem the Series C Notes 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 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 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 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 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 $291 million at December 31, 2006. BCE Inc. had no commercial paper outstanding at December 31, 2006.

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

Bell Canada securities

Bell Canada's articles of amalgamation, as amended, provide for an unlimited number of common shares and an unlimited number of preferred shares issuable in series. Bell Canada has also issued debt securities in the form of debentures and notes.

Bell Canada Class A preferred shares

As at December 31, 2006, Bell Canada's articles provided for an unlimited number of Class A preferred shares (Bell Canada preferred shares). The terms set out in the articles authorized Bell Canada's directors to issue Bell Canada preferred 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 the Bell Canada preferred shares at December 31, 2006. Bell Canada's articles described the terms and conditions of these shares in detail. For each of Bell Canada's Series 15 to 20 preferred shares, we have indicated the equivalent Series AE to AJ of BCE new preferred shares for which the Bell Canada preferred shares were exchanged on January 31, 2007 in connection with the implementation of Bell Canada's plan of arrangement. The terms and conditions of the BCE new preferred shares are equivalent to those of Bell Canada preferred shares described below. For more details on Bell Canada's plan of arrangement, see *Our capital structure — BCE Inc. securities* and *Business highlights — 2006 highlights — Strategic announcements.*

SERIES	ANNUAL DIVIDEND RATE	CONVERTIBLE INTO	CONVERSION DATE	REDEMPTION DATE	REDEMPTION PRICE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED AND OUTSTANDING	STATED CAPITAL AT DECEMBER 31 (IN $ MILLIONS) 2006	2005
15 (new AE)	Floating	Series 16 (new AF)	Feb. 1, 2010	At any time	$25.50	24,000,000	1,914,218	**48**	48
16 (new AF)	4.40%	Series 15 (new AE)	Feb. 1, 2010	Feb. 1, 2010	$25.00	24,000,000	14,085,782	**352**	352
17 (new AG)	4.35%	Series 18 (new AH)	May 1, 2011	May 1, 2011	$25.00	22,000,000	10,051,751	**251**	350
18 (new AH)	Floating	Series 17 (new AG)	May 1, 2011	At any time	$25.50	22,000,000	3,948,249	**99**	—
19 (new AI)	4.65%	Series 20 (new AJ)	August 1, 2011	August 1, 2011	$25.00	22,000,000	14,000,000	**350**	350
20 (new AJ)	Floating	Series 19 (new AI)	August 1, 2016	At any time	$25.50	22,000,000	—	**—**	—
								1,100	1,100

Voting rights

All of Bell Canada's issued and outstanding preferred shares at December 31, 2006 were non-voting, except under special circumstances, for example if Bell Canada failed to make dividend payments, then the holders were entitled to one vote per share.

Entitlement to dividends

Holders of Series 15 and 18 shares were entitled to floating adjustable cumulative monthly dividends.

Holders of Series 16, 17 and 19 shares were entitled to fixed cumulative quarterly dividends. The dividend rate on these shares was reset every five years as set out in Bell Canada's articles.

If Series 20 shares were issued, their holders would have been entitled to floating adjustable cumulative monthly dividends.

Conversion features

All of the issued and outstanding Bell Canada preferred shares at December 31, 2006 were convertible at the holder's option into another associated series of Bell Canada preferred shares on a one-for-one basis according to the terms set out in Bell Canada's articles.

Redemption features

Bell Canada could redeem Series 15 and 18 shares at any time.

Bell Canada could redeem Series 16, 17 and 19 shares on the redemption date and every five years after that date should such shares be outstanding.

If Series 20 shares had been issued, Bell Canada could have redeemed them at any time.

Liquidation, dissolution or winding up

In case of liquidation, dissolution or winding up of Bell Canada or any other distribution of its assets among shareholders for the purpose of winding up its affairs, the holders of Bell Canada preferred shares were entitled to receive all amounts provided in Bell Canada's articles to be payable in respect of return of capital, premium and dividends. These amounts were payable before any amount was paid to or any assets distributed among the holders of common shares or of shares of any other class ranking junior to the Bell Canada preferred shares. Unless the articles of Bell Canada otherwise provided with respect to any series of the Bell Canada preferred shares, after payment to the holders of the Bell Canada preferred shares of the amounts provided in such articles to be payable to them, such holders would not be entitled to share in any further distribution of the assets of Bell Canada.

Bell Canada debt securities

Bell Canada has also issued long-term debt securities as summarized in the table below.

	WEIGHTED AVERAGE INTEREST RATE	AT DECEMBER 31, 2006 MATURITY	(IN $ MILLIONS)
Debentures and notes	6.87%	2007-2035	7,025
Debentures	9.84%	2041-2054	700
Subordinated debentures	8.21%	2026-2031	275
Total			8,000

All of the above debentures issued by Bell Canada are unsecured and effective February 1, 2007 have been guaranteed by BCE Inc. They include:

§ US$200 million maturing in 2010, which has been swapped into Canadian dollars

§ $125 million of long-term debt with a call option that has been exercised, allowing for the debt to be redeemed on February 15, 2007.

Bell Canada has a shelf prospectus providing for the issuance of $3.0 billion of MTN debentures. As of March 7, 2007, Bell Canada had issued $200 million of MTN debentures under its current shelf prospectus. This shelf prospectus expires in June 2007.

Bell Canada 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 $872 million at December 31, 2006. Bell Canada had no commercial paper outstanding at December 31, 2006. Bell Canada can 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, 2006.

Certain of Bell Canada's debt agreements impose covenants which place limitations on the issuance of additional debt with a maturity date

exceeding one year based on certain tests related to interest and asset coverage. Bell Canada is in compliance with all conditions and restrictions attaching to its debt securities.

Ratings for BCE Inc. and Bell Canada securities

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

BCE Inc.'s and Bell Canada'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. and Bell Canada have asked for or received for their 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.

Commercial paper

The table below shows the range of credit ratings that each rating agency which rates BCE Inc.'s or Bell Canada's 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. and Bell Canada have 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

DBRS has also assigned an R-I (low) rating to Bell Canada and an R-2 (high) rating to BCE Inc. for extendible commercial notes.

The R-I (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 R-2 (high) rating for short-term debt ranks fourth among the 10 credit ratings given by DBRS, and according to DBRS, indicates the upper end of adequate credit quality. The ability to repay obligations as they mature remains acceptable, although the overall strength and outlook for key liquidity, debt and profitability ratios is not as strong as higher rating categories.

The A-I (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-I (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. and Bell Canada 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

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 scale provides a current assessment of the creditworthiness of a 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. and Bell Canada have received the following credit ratings for long-term debt:

	BCE INC. UNSUBORDINATED LONG-TERM DEBT	BELL CANADA UNSUBORDINATED LONG-TERM DEBT	BELL CANADA SUBORDINATED LONG-TERM DEBT
DBRS	A (low)	A	BBB (high)
S&P	BBB+	A-	BBB+
Moody's	Baa2	Baa1	Baa2
Fitch	BBB+	BBB+	BBB

The DBRS A, A (low) and BBB (high) ratings on long-term debt rank sixth, seventh and eighth, respectively, 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 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.

According to DBRS, long-term debt rated BBB by DBRS:

§ is adequate credit quality

§ protection of interest and principal is acceptable, but the company is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the company and its rated securities.

The A- and BBB+ ratings rank seventh and eighth, respectively, among the 22 long-term debt credit ratings given by S&P. According to S&P, an obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the company still has a strong capacity to meet its financial commitment on the obligation. 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 Baal and Baa2 ratings rank eighth and ninth, respectively, 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+ and BBB ratings rank eighth and ninth, respectively, 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 of 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)

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 earnings, 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.

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Outlook

BCE Inc. and Bell Canada have stable outlooks from DBRS, Moody's and Fitch and a negative outlook from S&P.

Trading of our securities

The common and preferred shares of BCE Inc. are listed on the TSX and, up to January 31, 2007, the Bell Canada preferred shares were also listed on the TSX. In addition, BCE Inc.'s common shares are also listed on the New York Stock Exchange (NYSE) and the SWX Swiss Exchange. The tables below and on the next pages show the range in share price per month and volume traded on the TSX in 2006 for each class of BCE Inc. securities.

BCE Inc. common shares

2006	HIGH	LOW	VOLUME TRADED
December	$ 31.50	$ 27.85	100,311,684
November	$ 28.50	$ 26.79	65,343,412
October	$ 34.25	$ 30.10	103,465,748
September	$ 31.10	$ 27.01	86,785,489
August	$ 28.00	$ 25.41	50,769,722
July	$ 26.96	$ 25.32	35,786,736
June	$ 27.81	$ 25.91	46,138,711
May	$ 27.75	$ 26.12	48,550,885
April	$ 28.53	$ 27.50	34,133,692
March	$ 28.95	$ 27.13	54,161,271
February	$ 28.80	$ 26.56	62,246,216
January	$ 29.04	$ 27.18	57,586,682

BCE Inc. preferred shares — Series R

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.65	$ 25.12	1,514,084
November	$ 25.67	$ 24.66	29,973
October	$ 25.87	$ 25.25	41,404
September	$ 25.59	$ 24.75	137,037
August	$ 25.33	$ 24.75	36,395
July	$ 25.59	$ 25.05	45,585
June	$ 25.80	$ 25.16	41,402
May	$ 25.72	$ 24.66	49,442
April	$ 26.19	$ 25.07	50,936
March	$ 26.20	$ 25.71	102,660
February	$ 25.97	$ 25.65	164,565
January	$ 26.09	$ 25.78	468,330

BCE Inc. preferred shares — Series S

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.09	$ 24.70	472,130
November	$ 24.98	$ 24.51	27,150
October	$ 25.35	$ 24.80	87,660
September	$ 25.00	$ 24.28	61,520
August	$ 25.05	$ 24.25	55,910
July	$ 25.15	$ 24.76	16,875
June	$ 25.25	$ 25.11	26,212
May	$ 25.30	$ 25.11	28,857
April	$ 25.25	$ 25.10	142,599
March	$ 25.30	$ 25.04	58,656
February	$ 25.25	$ 25.05	279,511
January	$ 25.39	$ 25.05	103,978

BCE Inc. preferred shares — Series T

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.85	$ 25.01	594,453
November	$ 25.50	$ 25.00	20,515

BCE Inc. preferred shares — Series Y

2006	HIGH	LOW	VOLUME TRADED

December	$ 25.00	$ 24.75	2,200
November	$ 25.20	$ 24.70	11,300
October	$ 25.48	$ 24.41	15,526
September	$ 24.88	$ 24.15	9,175
August	$ 25.00	$ 24.77	4,446
July	$ 25.20	$ 25.00	9,045
June	$ 25.29	$ 24.95	13,997
May	$ 25.44	$ 25.01	39,668
April	$ 25.39	$ 25.16	44,060
March	$ 25.44	$ 25.10	5,585
February	$ 25.65	$ 25.10	6,594
January	$ 25.60	$ 25.10	9,447

BCE Inc. preferred shares — Series Z

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.79	$ 25.25	539,000
November	$ 25.57	$ 23.72	285,239
October	$ 25.80	$ 25.10	47,045
September	$ 25.98	$ 25.01	78,399
August	$ 25.85	$ 25.01	26,681
July	$ 26.00	$ 25.25	35,178
June	$ 26.20	$ 25.45	307,021
May	$ 26.74	$ 25.01	317,400
April	$ 26.25	$ 25.21	45,480
March	$ 26.50	$ 25.85	138,910
February	$ 26.35	$ 25.40	47,850
January	$ 26.55	$ 25.60	36,615

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BCE Inc. preferred shares — Series AA

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.47	$ 25.21	1,380,470
November	$ 25.39	$ 25.03	87,793
October	$ 25.61	$ 24.96	80,591
September	$ 25.73	$ 25.14	37,232
August	$ 25.48	$ 25.02	89,728
July	$ 25.65	$ 25.20	78,289
June	$ 25.74	$ 25.25	675,784
May	$ 25.55	$ 25.01	140,256
April	$ 25.85	$ 25.35	93,789
March	$ 25.83	$ 25.44	294,413
February	$ 25.92	$ 25.46	148,853
January	$ 26.10	$ 25.60	273,951

BCE Inc. preferred shares — Series AC

2006	HIGH	LOW	VOLUME TRADED
December	$ 26.00	$ 25.42	2,162,825
November	$ 25.65	$ 25.15	89,946
October	$ 25.98	$ 25.25	134,733
September	$ 26.17	$ 25.51	44,705
August	$ 26.53	$ 25.18	47,660
July	$ 25.89	$ 25.15	115,246
June	$ 25.97	$ 25.58	546,080
May	$ 27.50	$ 24.75	246,945
April	$ 26.25	$ 25.35	54,680
March	$ 26.25	$ 25.60	520,236
February	$ 26.30	$ 25.50	205,760
January	$ 26.60	$ 25.50	54,356

Bell Canada preferred shares — Series 15 (exchanged effective January 31, 2007 for BCE new preferred shares — Series AE)

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.09	$ 24.80	4,205
November	$ 25.09	$ 24.50	6,112
October	$ 25.68	$ 24.74	12,925
September	$ 24.89	$ 24.41	5,920
August	$ 25.25	$ 24.75	7,801
July	$ 25.00	$ 24.75	29,200
June	$ 25.15	$ 24.72	6,655
May	$ 25.85	$ 24.80	70,998
April	$ 25.90	$ 24.97	14,123
March	$ 25.25	$ 24.75	9,411
February	$ 25.55	$ 24.90	11,600
January	$ 25.60	$ 25.15	5,327

Bell Canada preferred shares — Series 16 (exchanged effective January 31, 2007 for BCE new preferred shares — Series AF)

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.70	$ 25.05	101,885
November	$ 25.69	$ 24.67	19,609
October	$ 25.75	$ 24.90	184,308
September	$ 25.51	$ 24.90	62,179
August	$ 25.05	$ 24.91	164,130
July	$ 25.50	$ 24.90	101,944
June	$ 25.25	$ 24.95	407,349
May	$ 25.80	$ 24.62	73,449
April	$ 25.78	$ 24.00	19,797
March	$ 26.20	$ 25.43	19,076
February	$ 25.99	$ 25.50	11,789
January	$ 26.30	$ 25.66	17,692

Bell Canada preferred shares — Series 17 (exchanged effective January 31, 2007 for BCE new preferred shares — Series AG)

2006	HIGH	LOW	VOLUME TRADED

December	$ 25.73	$ 25.05	241,300
November	$ 25.51	$ 25.05	30,262
October	$ 25.69	$ 25.10	53,751
September	$ 25.45	$ 24.35	160,699
August	$ 25.10	$ 24.21	38,885
July	$ 25.10	$ 24.75	41,054
June	$ 25.40	$ 24.85	650,400
May	$ 25.50	$ 25.01	83,890
April	$ 25.20	$ 24.81	302,534
March	$ 25.70	$ 25.00	84,220
February	$ 25.75	$ 25.35	22,465
January	$ 25.90	$ 25.11	46,739

Bell Canada preferred shares — Series 18 (exchanged effective January 31, 2007 for BCE new preferred shares — Series AH)

2006	HIGH	LOW	VOLUME TRADED
December	$ 25.55	$ 25.10	24,900
November	$ 25.40	$ 25.05	27,130
October	$ 25.40	$ 25.13	102,470
September	$ 25.17	$ 25.07	882,930
August	$ 25.15	$ 25.05	212,984
July	$ 25.20	$ 25.00	10,965
June	$ 25.15	$ 25.05	175,400
May	$ 25.30	$ 25.05	171,925

Bell Canada preferred shares — Series 19 (exchanged effective January 31, 2007 for BCE new preferred shares — Series AI)

2006	HIGH	LOW	VOLUME TRADED
December	$ 26.24	$ 25.01	525,828
November	$ 26.25	$ 25.06	125,527
October	$ 26.49	$ 25.30	99,832
September	$ 25.80	$ 25.03	1,033,049
August	$ 25.10	$ 24.94	2,374,749
July	$ 25.29	$ 24.75	1,847,355
June	$ 25.33	$ 24.90	306,157
May	$ 25.55	$ 24.52	112,327
April	$ 25.59	$ 25.01	41,484
March	$ 26.25	$ 25.00	220,046
February	$ 26.25	$ 25.00	254,087
January	$ 26.25	$ 25.43	32,085

Our dividend policy

BCE Inc.'s dividend policy takes into consideration a number of factors including the corporation's earnings and cash flow trends, financial condition and capital requirements. We seek to allow our shareholders to participate in the company's operational progress through growth in dividend distributions, while maintaining a healthy capital structure that provides sufficient financial flexibility for investment in strategic priorities and future growth.

On that basis, on December 12, 2006, BCE Inc. announced that its board of directors approved an increase in BCE Inc.'s common share dividend of 11% increasing the dividend from $1.32 to $1.46 per common share on an annualized basis.

The board of directors of BCE Inc. has established a targeted common share dividend payout ratio of 70-75% of earnings. Going forward, increases in the common share dividend will be directly linked to growth in the company's earnings.

BCE Inc.'s board of directors reviews BCE Inc.'s dividend policy from time to time.

Subject to being declared by the board of directors, BCE Inc. pays quarterly dividends on common shares at a rate of $1.46 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, Series Y, Series AE and Series AH preferred shares, which BCE Inc. declares and pays monthly.

The table below shows the amount of cash dividends declared per share of each class of BCE Inc. shares for 2004, 2005, and 2006.

	2006	2005	2004
Common	**$ 1.32**	$ 1.32	$ 1.20
Preferred shares			
– Series R	**$ 1.135**	$1.441375	$ 1.5435
– Series S	**$ 0.97808**	$ 0.7546	$0.66022
– Series T	**$0.281375**	—	—
– Series Y	**$ 0.97212**	$ 0.79798	$0.66267
– Series Z	**$ 1.3298**	$ 1.3298	$ 1.3298
– Series AA	**$ 1.3625**	$ 1.3625	$ 1.3625
– Series AC	**$ 1.385**	$ 1.385	$ 1.385

As previously discussed, effective January 31,2007, the outstanding Bell Canada preferred shares were exchanged for equivalent BCE new preferred shares. The table below shows the amount of cash dividends declared in 2004, 2005 and 2006 per class of Bell Canada preferred shares.

	2006(1)	2005	2004
Series 15 (exchanged for BCE Inc. Series AE)	$ 0.96979	$0.80885	$ 1.375
Series 16 (exchanged for BCE Inc. Series AF)	$ 1.10	$ 1.10	—
Series 17 (exchanged for BCE Inc. Series AG)	$1.143755	$1.31252	$1.31252
Series 18 (exchanged for BCE Inc. Series AH)	$ 0.88802	—	—
Series 19 (exchanged for BCE Inc. Series AI)	$ 1.27501	$1.38752	$1.38752

(1) Excludes $0.20 special dividend per share declared on December 11, 2006.

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, 2006, Bell Canada has integrated the following entities into its corporate environmental action plan: Bell Canada, Bell Aliant (Québec and Ontario), Bell Mobility, Bell ExpressVu, Bell West, Bell Technical Solutions Inc. (Bell Technical Solutions), BCE Nexxia Corp., Expertech, Télébec, NorthernTel, Northwestel and Telesat.

For the year ended December 31, 2006, Bell Canada spent $12.5 million on environmental activities, 64% of this was expenses and 36% was for capital expenditures. For 2007, Bell Canada has budgeted $13.4 million (74% for expenses and 26% for capital expenditures) to ensure that its environmental policy is applied properly and its environmental risks are minimized.

In 2002 Bell Aliant adopted a comprehensive environment policy for Atlantic Canada updated in 2006 which affirms its commitment to working to create a sustainable future by integrating long-term economic, environmental and social considerations into the way the business is operated. The policy provides for the identification of activities and situations which may have potential to harm the environment, and the implementation of environmentally positive practices and preventive measures. Bell Aliant's program seeks to ensure that it complies with all environmental regulatory requirements and that its activities are carried out in a manner that minimizes risk to the environment through a continuous improvement process.

Bell 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. Bell Aliant has adopted an environment action plan which sets out specific environmental goals for 2007.

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. In line with this commitment, in 2006, BCE Inc. adopted a resolution to support the United Nations Global Compact principles.

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.

Our duty as a responsible corporate citizen also extends to using our financial resources and the expertise of our employees to invest in the communities we serve.

We believe the future of our country is being determined today by our collective ability to enable our children to reach their full potential.

That is why our investment is focused on organizations that help children and youth grow up strong and healthy. We therefore invest, for example, in innovative programs in children's hospitals and we support initiatives such as cybertip.ca — a web portal through which ordinary Canadians can report suspected abuse. We also continue to grow the Bell Walk for Kids Help Phone which has raised $9 million in five years for Canada's only toll-free, 24-hour bilingual phone and web counselling, referral and information service for young people.

In 2006, we contributed over $20 million in donations and local community sponsorships. In addition, our employees and pensioners committed over $1.6 million in charitable gifts and logged more than 300,000 hours in volunteer time. All of this is indicative of our belief that we have an important role to play in the sustainability of the communities in which we live and work.

Business highlights

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

2006 highlights

Key acquisitions and dispositions

Bell Aliant

On July 7, 2006, BCE Inc. and Aliant formed Bell Aliant. Bell Aliant combines Bell Canada's former regional wireline operations in rural Ontario and Québec with Aliant's former wireline, information technology and related operations in Atlantic Canada, and also includes Bell Canada's former 63.4% interest in NorthernTel and Télébec held indirectly through Bell Nordiq Group Inc. As part of the transaction, we acquired Aliant's wireless assets and the shares of Aliant's subsidiary, DownEast Ltd., which operates retail outlets throughout Atlantic Canada. Upon closing of the transaction, we held a 73.5% indirect interest in Bell Aliant, which we subsequently reduced to approximately 45% through a distribution of trust units by way of a return of capital to holders of BCE Inc. common shares on July 10,2006. In conjunction with this distribution, BCE Inc. reduced its outstanding common shares by 75.8 million. Bell Aliant began trading on the TSX on July 10, 2006 under the symbol 'BA.UN'. The financial results of Bell Aliant continue to be consolidated by BCE Inc.

For so long as we own a 30% or greater interest in Bell Aliant and provided that certain major commercial agreements are in place, we have the right to appoint a majority of the directors and to nominate a majority of the trustees of Bell Aliant. We also have the ability to veto certain actions of Bell Aliant (business plans, significant corporate transactions, material changes in business, leverage in excess of 2.5 times debt to EBITDA, appointment and change of Chief Executive Officer and entering into material commercial agreements with competitors of BCE) as long as we own a 20% or greater interest in Bell Aliant.

In the fourth quarter of 2006, Bell Aliant announced a proposal to acquire all of the units of Bell Nordiq Income Fund (Bell Nordiq), the holder of the remaining 36.6% interest in NorthernTel and Télébec. The transaction, including the payment by Bell Nordiq to Bell Nordiq unitholders of a special distribution of $4.00 per unit, or $131 million and the issuance of 0.4113 of a Bell Aliant unit in exchange for each Bell Nordiq unit for a total of 13.5 million units, was completed at the end of January 2007. Bell Nordiq units ceased trading on the TSX as of the close of business on January 29, 2007 and were delisted at the close of business on January 30, 2007. We currently own an approximate 42% interest in Bell Aliant.

Completion of Bell Globemedia reorganization

On August 30, 2006, following the receipt of regulatory approval, BCE Inc. completed the sale of 20% of Bell Globemedia to Ontario Teachers Pension Plan, the sale of an additional 20% to Torstar Corporation and finally the sale of 8.5% to The Woodbridge Company Limited decreasing BCE Inc.'s holding in Bell Globemedia from 68.5% to 20%.

As part of the transaction, we retained certain important rights and have entered into a commercial agreement with Bell Globemedia to have access to existing and future content. Subsequent to the conclusion of this transaction, Bell Globemedia completed its takeover bid of CHUM Limited, resulting in a further reduction of BCE Inc.'s ownership in Bell Globemedia from 20% to approximately 15%.

Effective on January 1, 2007, Bell Globemedia changed its name to CTVglobemedia Inc.

Investment in Clearwire Corporation

On September 6, 2006, Bell Canada exercised its pre-emptive right to subscribe for US$83.8 million of additional common equity of Clearwire Corporation (Clearwire), bringing its total invested capital in Clearwire to US$183.8 million. This investment was made as part of a US$1.1 billion financing round completed by Clearwire.

Clearwire has filed a registration statement in connection with an initial public offering which was declared effective by the U.S. Securities and Exchange Commission on March 7, 2007. The closing of this offering and the issuance of the shares (assuming the over-allotment option is not exercised) is expected to dilute our equity interest to approximately 8%. The shares of Clearwire are now listed on the NASDAQ Global Select Market under the symbol "CLWR". See *Business highlights — 2005 highlights* for more information about Clearwire.

Sale of Telesat

Consistent with its strategy of concentrating on its core communications business, on December 18, 2006, BCE Inc. announced the sale of its satellite services subsidiary Telesat to a new acquisition company formed by PSP Investments and Loral Space & Communications Inc. for $3.25 billion. Existing capital losses will be utilized to complete the transaction without any cash taxes being triggered. The sale is subject to regulatory approval both in Canada and the United States, and is expected to close in mid-2007. Other customary closing conditions must also be satisfied. A material adverse change in Telesat's results and operations prior to closing or the failure of the purchaser to complete its committed financing or to fulfill its obligations to BCE Inc. could prevent the sale from occurring, or may result in the sale occurring on materially different terms and conditions. In conjunction with the sale, we have put in place a set of commercial arrangements between Telesat and Bell ExpressVu that guarantee Bell ExpressVu access to current and expanded satellite capacity, including services available after the launch of Telesat's Nimiq 5 satellite in 2009. We will not account for Telesat as discontinued operations because of the ongoing commercial relationships between BCE and Telesat that will continue after the sale is completed.

Exchange of interests in Mobile Satellite Ventures, L.P. and TerreStar Networks Inc. for shares of SkyTerra Communications, Inc. and Motient Corporation

On January 5, 2007, we exchanged approximately 8 million units of privately-held Mobile Satellite Ventures, L.P. (MSV) for approximately 22.5 million non-voting common shares of publicly-traded SkyTerra Communications, Inc. (SkyTerra) (over-the-counter under the symbol "SKYT"). Those non-voting common shares are convertible into common shares of SkyTerra upon their transfer by us on the public market and represent an equity interest of approximately 21.2% in SkyTerra. 33% of our SkyTerra shares are subject to certain transfer restrictions, which percentage will be reduced to 25% on October 6, 2007, 20% on October 6, 2008 and zero on April 6, 2010.

On January 15, 2007, we executed an agreement to exchange approximately 5.1 million shares of privately-held TerreStar Networks, Inc. (TerreStar) for approximately 9 million common shares of publicly-traded Motient Corporation (Motient) (over-the-counter under the symbol "MNCP"). Closing of the exchange will occur on March 8, 2007. On March 7, 2007, we executed an agreement to dispose of 4.5 million Motient shares which is also expected to close on March 8, 2007. Our remaining Motient shares, which will not be subject to any transfer restrictions for transfers on the public market, will represent an equity interest of approximately 5.6% in Motient.

These exchange transactions were intended to unlock the value of our MSV and TerreStar investments. BCE may consider disposing or acquiring from time to time shares of SkyTerra or Motient depending on prevailing market conditions.

Strategic announcements

Normal course issuer bid

As at December 31, 2006, BCE Inc. had purchased 45,150,000 common shares under its Normal Course Issuer Bid commenced on February 3, 2006 (2006 NCIB) and ended on February 1, 2007, representing approximately 100% of the total common shares targeted for repurchase, for a total cash outlay of $1.241 billion.

On December 12, 2006, BCE Inc. announced that it would initiate a new normal course issuer bid upon the expiry of the 2006 NCIB. Further to this announcement, BCE Inc. received acceptance from the TSX of its notice of intention to make a Normal Course Issuer Bid on February 6, 2007. The filing of this notice allows BCE Inc. to purchase

for cancellation up to 40,000,000 of its common shares, representing approximately five per cent of BCE Inc.'s 807,658,658 common shares outstanding as at January 31, 2007. BCE Inc. is currently contemplating a buyback program of approximately $1.2 billion. Purchase of the shares will be carried out through the TSX and/or the NYSE and will be made in accordance with the by-laws and rules of such exchanges. Purchases of common shares may be made from time to time, at market prices, during the period starting February 9, 2007 and ending no later than February 8, 2008.

Simplification of corporate structure and approval of Bell Canada's plan of arrangement for exchange of Bell Canada preferred shares

On December 12, 2006, BCE Inc. announced that it would not move forward with the proposed conversion of Bell Canada into an income trust nor with plans to make a tender offer for all of the outstanding preferred shares of BCE Inc. and Bell Canada, but that it would continue with its previously announced plans to simplify its corporate structure. As part of this process, BCE Inc. intends, at its next annual shareholder meeting on June 6, 2007, to submit a proposal to its shareholders to change its name to Bell Canada Inc. and, if approved, Bell Canada intends to change its name to Bell Inc. at the same time.

In addition, under a plan of arrangement, and as part of the corporate simplification process, holders of Bell Canada preferred shares agreed at a special meeting held on January 23, 2007 to exchange their shares for BCE new preferred shares with the same series rights effective January 31, 2007. The arrangement provided for the payment of a one-time special dividend of $0.20 per Bell Canada preferred share outstanding immediately prior to the exchange. The BCE new preferred shares began trading on the TSX on February 1, 2007. On the same day, BCE Inc. entered into agreements to guarantee all of Bell Canada's public debt securities.

As a result of the implementation of this plan of arrangement and guarantee, effective February 1, 2007, Bell Canada no longer has to prepare and file public disclosure documents separate from those of BCE Inc.

Other developments

Labour settlement

On May 15, 2006, we reached an agreement with the CEP on pay equity that benefits 4,765 current and former Bell Canada employees. The settlement covers Bell Canada employees represented by the CEP in positions occupied primarily by women. The settlement was for approximately $100 million.

2005 highlights

The following events influenced our business in 2005 or were referred to in our 2005 AIF:

§ On April 7, 2005, Bell Canada completed the acquisition of Nexxlink Technologies Inc., a provider of integrated IT solutions, for a purchase price of $74 million in cash (since integrated within Bell Business Solutions Inc.).

§ On April 30, 2005, Bell Canada completed the purchase of all the shares of Entourage Technology Solutions Inc. (Entourage) that it did not already own. Entourage (since renamed Bell Technical Solutions) is Bell Canada's residential installation and repair supplier.

§ 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 Voice over Internet Protocol (VoIP) and certain other value-added Internet Protocol (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 allows 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 manages the deployment and operation of Clearwire's U.S. VoIP offering. At the same time, Bell Canada completed an investment of US$100 million in Clearwire and the CEO of BCE Inc. joined Clearwire's board of directors. Concurrently with this transaction, Bell Canada acquired from companies directly or indirectly controlled by Mr. McCaw a 50% interest in NR Communications Ltd., which is one of the two partners in the Inukshuk joint venture (as discussed below).

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

§ On September 16, 2005, Bell Canada announced an alliance with Rogers Communications Inc. (Rogers) to jointly build and manage a nationwide wireless broadband network through Inukshuk Wireless Inc. (Inukshuk), which holds approximately 98 MHz of wireless broadband spectrum in the 2.5G Hz frequency range across much of Canada. Inukshuk is owned and controlled equally by Bell Canada and Rogers who 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 is 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 Mr. McCaw to acquire the remaining 50% of NR Communications Ltd. not already owned by Bell Canada.

§ On December 16, 2005, BCE Inc. announced its decision to sell its 29.8% interest in CGI Group Inc. (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. At the same time we extended our outsourcing agreements with CGI. CGI remains 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 was similarly extended. The commercial alliance between CGI and Bell Canada's Enterprise group was also extended to 2016. The Bell Canada pension fund acquired 25 million Class A shares of CGI still held by BCE Inc.

on July 28, 2006 and BCE Inc.'s last remaining 6.4 million Class A shares on October 23, 2006.

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% remaining 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% 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 360networks Corporation (360networks), 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 Inc.'s (formerly BCE Emergis Inc.) (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 Bell 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.
- 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, Bell Aliant's predecessor company, Aliant Telecom Inc. (Aliant Telecom), reached a new agreement with its approximately 4,300 unionized employees, represented by the Council of Atlantic Telecommunication Unions. This agreement will expire in December 2007.
- In October 2004, Bell 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.
- 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, Beijing 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.

About our **Businesses**

Our strategic priorities

We accelerated the transformation of the company in 2006, further strengthening the operational foundations we have put in place over the last three years. These included driving a shift in our revenue mix towards growth services, resetting our cost base and returning to our core communications business. We also continued to build upon all three strategic pillars — improving the customer experience, enhancing bandwidth and developing next-generation services. Marketing fundamentals came into sharper focus, which enabled us to step up to the competitive challenges of cable telephony more effectively.

The three pillars will continue to be critical in 2007, as will our efforts to improve our operational efficiency and productivity. We will also place a growing focus on enhancing the experience of our customers. It is how we will differentiate our business from the competition to build customer loyalty as we drive the profitable expansion of our growth services and slow the decline of our traditional voice and data businesses. However, service alone will not make us competitive. We must also continue to deliver products, services and solutions that make a difference for customers. We will continue to invest in developing growth services and enhancing the networks on which they run. In 2007, the majority of our capital spending will be in areas such as enhancing customer service, wireless operations and our advanced residential broadband network.

We have established five operational priorities for 2007 to achieve our objective of delivering consistent, reliable, high-quality communications services to customers efficiently and cost-effectively:

1. **Service quality —** We are determined to consistently meet or exceed customer expectations and enhance their overall experience with Bell Canada. This focus on improving the total customer experience will help to differentiate us from our competitors and ensure long-term customer loyalty to the Bell brand and products.

2. **Broadband acceleration —** We will continue to invest in advanced network enhancements, such as the continued rollout of fibre-to-the-node (FTTN) technology, in order to expand the reach and speed of our digital subscriber line (DSL) Internet service and to enable video over Internet Protocol (IPTV) services.

3. **Wireless growth —** A key driver of growth and financial performance, the wireless business will be supported by an expanded array of handsets and devices, new products and features, expected growth in data usage, ongoing enhancements to the broadband Evolution, Data Optimized (EVDO) wireless data network and overall network quality. We are focused on delivering continued improvements in average revenue per user (ARPU) and data growth, while acquiring our competitive share of net subscriber additions.

4. **Business sector profitability —** With a focus on ICT/virtual chief information officer (VCIO) profitability, we will leverage the unique capabilities and scale in our Enterprise and SMB operations to take advantage of market opportunities and pull through connectivity revenues.

5. **Productivity improvements —** A core element of financial performance, productivity improvements have enabled Bell Canada's increased competitiveness in the marketplace. Cost discipline remains a centrepiece of our strategy, with productivity improvements expected to contribute to further improvement in earnings.

We intend to execute these priorities based on a foundation of market leadership behaviour and a balance between profitable growth and enhanced market share. With an increasingly cost-efficient structure, we believe that we are well positioned to leverage our network capabilities as well as our product and brand assets.

In 2006, we made significant progress in building upon each of our three key strategic pillars.

Enhancing customer experience by providing superior products and service that build loyalty

- Our multi-product household strategy continued to drive increased penetration of households subscribing to three or more products (a combination of local wireline, Internet, video, wireless and long distance services), reaching over 25% of total households in our Ontario and Québec footprint at the end of 2006, up from 22% at the end of 2005.
- At the end of 2006, approximately six million customers were enjoying the benefits of a single bill for their wireline, Internet, video and/or wireless services (our One Bill program), compared with approximately two million at the end of 2005.
- As a result of our DSL hardening program, which has improved the performance of the network through software upgrades and the installation of new hardware, we reduced major outages of our high-speed Internet service by 12% in 2006 compared with the previous year.
- We delivered improved service commitments and service levels in 2006 by reducing the total number of missed appointments for fixed wireline installations and repairs by approximately 3% and 15%, respectively, over the previous year.
- Our first call resolution rate in the Residential segment improved 2.1 percentage points in 2006 to approximately 81%.
- Sympatico, our Internet service provider (ISP) to residential and SMB customers, launched new desktop tools enabling customers to diagnose and correct configuration settings on their own or remotely through a call centre agent. These new tools are intended to drive self-service and reduce the average handling time of calls in our contact centres.
- As at the end of 2006, 93% of our Enterprise customers had adopted our online bill manager tool, a service that provides self-serve capabilities for business customers, enabling them to view, track and pay invoices online and to produce customized reports.
- Our Enterprise unit began the implementation of Service Desk, which will integrate connectivity and ICT customer care to create a single point of contact for the customer.

In 2007, we intend to continue improving service and enhancing the customer experience. In particular, we plan to:

- drive service quality so that it sets us apart in the market
- deliver improved service commitments and service levels by significantly reducing the number of missed appointments
- achieve distribution excellence by expanding our points of presence, refreshing existing stores, and enhancing existing channels such as 310-Bell and bell.ca
- expand our handset and device portfolios
- improve processes to simplify customer transactions.

Deliver abundant and reliable bandwidth to enable next generation services

- We carried on with our rollout of FTTN by deploying another 1,564 neighbourhood nodes in 2006, raising the total number of nodes deployed to 3,612. In total, we currently expect to deploy approximately 11,000 to 12,000 nodes by 2011 for a total cost of approximately $1.2 billion, of which approximately $400 million has been spent as of the end of 2006.
- We continued to invest in our high-speed EVDO wireless data network by expanding the footprint to a number of cities and towns in Ontario, Québec, British Columbia and Alberta, bringing coverage to 55% of the Canadian population.
- We launched Sympatico Optimax™, a high-speed Internet service that leverages the latest fibre optic technology, across significant parts of Toronto and Montréal. The service offers an Internet connection that delivers consistently fast Internet service, with speeds of up to 16 megabits per second (Mbps).
- Inukshuk, our joint venture between Bell Canada and Rogers, completed the initial phase of its new wireless broadband network that reaches five million households representing 40% of the population in 20 urban centres across Canada. This next-generation IP wireless network enables portable services allowing subscribers to access the Internet and other applications such as VoIP and video streaming.

In 2007, we intend to continue to expand the reach and speed of DSL service through our FTTN rollout, which will enable speeds of up to 26 Mbps. In the future, as consumer demand for bandwidth-intensive applications increases, we believe that FTTN bandwidth speeds can be increased to more than 40 Mbps through techniques such as shortening very high data rate DSL (VDSL) loop lengths and bonding twisted-pair copper telephone lines. At the same time, the Inukshuk fixed wireless broadband access network footprint will continue to be expanded. We also plan to complete implementation of the EVDO wireless data network across our remaining wireless coverage areas.

Create next-generation services to drive ongoing profitable growth

- Bell Mobility launched a number of new services designed to drive data growth, including:
  - Groove Client, a music download service
  - a music video ringtones service that allows customers to listen to and/or watch digital music videos directly on their wireless phone
  - various video clip services featuring exclusive NHL hockey game highlights, MTV video highlights and images, and news and business reports from CTV News and Report on Business Television (ROBTv).
- Bell ExpressVu continued to build on its expansive retail offering of leading high-definition (HD) services with the launch of 12 new HD channels during the year. HD television, with its high-resolution images and theatre-quality sound, provides a viewing experience that is richer and more visually captivating than standard television. In addition, our video unit enhanced its line-up of interactive TV (iTV) programming, providing the best interactive and on-demand news, weather and sports experience.
- Sympatico, our ISP to residential and SMB customers, started marketing several new products and services in 2006, including:
  - an enhanced version of its MSN Music Store, which offers customers safe and secure pay-per-download of high-quality music tracks via credit card payment
  - 'Personal Vault', a comprehensive online storage solution that is available exclusively from Bell Canada to back-up, access and share content such as digital photos, financial records, music and video files
  - Canada's first subscription-based fraud protection service
  - *Sympatico™ Unplugged,* a high-speed portable Internet access product that offers speeds comparable to current residential and SMB offerings.
- Our Enterprise unit expanded its service offering in 2006 with applications such as IP audio conferencing and an enhanced IP virtual private network (VPN) product with global capabilities and advanced customer reporting functionality.
- Our SMB unit introduced several new products this year, including:
  - *Business Internet Unplugged,* a portable wireless DSL service
  - Managed IP, an IP Private Branch Exchange (IP PBX) monitoring, management and maintenance service.

In 2007, our objective is to drive the introduction of new products and services that balance innovation with profitability and that are brought to market more quickly. We plan to introduce EVDO-enabled data applications and other services to our wireless customers in order to deliver continued improvements in ARPU and data growth, as well as expand our residential broadband services to help customers manage information needs in their homes by leveraging our Sympatico-MSN portal. In our video unit, we intend to drive growth by investing in new growth areas, such as IPTV and HD programming, in our goal of becoming 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 network-supported applications and services in the financial services and federal, provincial and large municipal government sectors, as well as by concentrating on key customers in the retail, distribution and manufacturing sectors. We will also strengthen our capabilities in data and network security and business resilience. The overall objective within our SMB unit is to drive greater profitability through stronger organic growth with its refined VCIO strategy and the expansion of existing value-

added services (VAS) that build on the strengths of recent business acquisitions, as well as sale force and mid-market customer realignment.

Transforming our cost structure

Overall, our various cost-reduction initiatives resulted in savings of $724 million in 2006, which brought the total amount of cost savings since 2004 to approximately $1.6 billion. Cost savings this year were realized primarily through process improvements in our business units and our supply chain transformation program, which contributed to maintaining Bell Canada's EBITDA margin stable year-over-year.

Cost reductions from efficiency-related process improvements amounted to $341 million in 2006 and were driven primarily by:

§ a reduction in the number of invoices printed and mailed to our residential customers under the One Bill initiative

§ more efficient contact centre operations, resulting in lower call volumes

§ a reduction in the number of missed commitments for fixed wireline installations and repairs

§ workforce reductions stemming from greater use of outsourcing and other productivity initiatives.

With respect to our workforce reduction program for 2006, our original plan called for 3,000 to 4,000 employee departures. In total, over 3,300 employee departures took place. However, this was offset by approximately 550 positions which were added in the year in support of our revenue growth and service quality initiatives. As a result, net employee departures totalled approximately 2,750 in the year.

Supply transformation savings of $383 million in 2006 were realized from:

§ increased controls over discretionary spending

§ reduced spending on IT services

§ outsourcing of selected contact centre call volumes

§ renegotiated contracts resulting in rate reductions and vendor rebates for wireless handsets, wireline data and voice equipment, and Internet portal services that we resell to our customers.

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, at December 31, 2006, were included in Bell Canada's *Residential, Business, Bell 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 BCE's 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 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 service providers

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

Rates for local telephone and VAS in our incumbent territories are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). These regulations continue to restrict our local and access business with respect to the bundling and packaging of local services with other non-regulated services and with limitations on customer winback promotions. However, on December 11, 2006 the federal government proposed to accelerate deregulation of retail telephone prices by implementing new forbearance criteria based on either a competitive facilities-based or competition-based test. Under the new proposal, restrictions on customer winbacks and other promotions would be immediately ended. In addition, the CRTC would consider each forbearance application on a priority basis and would make a decision within 120 days. We believe that the federal government proposal could be adopted as early as the end of the first quarter of 2007. For more details on regulatory issues that affect our business, see *The Regulatory Environment we operate in — Key regulatory issues.*

The local telephone services market became increasingly competitive in 2006 as the major cable operators in our Québec and Ontario markets expanded the reach of their low-priced cable telephony services.

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 2006, our long distance services business continued to face intense competitive pressure given the expanded presence of cable telephony and the continuing impact from

non-traditional suppliers (i.e., prepaid card, dial-around and other VoIP providers).

Wireless services

We offer a full range of wireless voice, data and paging communications products and services to residential and business customers across Canada. We also provide an array of VAS across our voice and data platforms such as call display and voicemail, e-mail and video-streaming, music downloads, ringtones and games, as well as roaming services with other wireless service providers. Customers can choose to pay for their services through a monthly rate plan (postpaid) or in advance (prepaid). At the end of 2006, we had approximately 5.9 million wireless customers and 0.3 million paging customers.

Our wireless subsidiary, Bell Mobility, provides wireless communications services nationwide under the *Bell Mobility™, Solo Mobile™* and *Aliant Mobility™* brands. During 2006, Solo Mobile was repositioned in the wireless market as a value brand that broadly appeals to mass-market consumers instead of a brand that is geared primarily towards the youth segment. In addition, we have a joint venture with The Virgin Group to offer wireless services under the Virgin brand across Canada.

Our wireless network provides voice services, and data services at typical transmission speeds of approximately 120 kilobits per second (Kbps) delivered over our existing single-carrier radio transmission technology (IxRTT) 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 continue our deployment of EVDO in other major Canadian urban centres and other areas in 2007. At the end of 2006 our wireless network covered:

§ 95% of the population of Ontario and Québec

§ approximately 90% of the population of Atlantic Canada

§ the major cities in the Provinces of Alberta and British Columbia.

Data services

High-speed Internet access service provided through DSL technology for residential and business customers is a growth area for Bell Canada. At the end of 2006, we had approximately 2.5 million high-speed Internet customers.

Our DSL high-speed Internet access footprint in Ontario and Québec reached more than 89% of homes and 92% of business lines passed at the end of 2006. In Bell Aliant's territory comprised of Atlantic Canada and rural Ontario and Québec, DSL high-speed Internet was available to over 70% of homes and over 80% of businesses at the end of 2006.

During 2006, we launched *Sympatico Optimax™,* a premium high-speed service, delivering consistently fast Internet services with speeds up to 16 Mbps. We also upgraded our broadband access speed for DSL Basic customers in Ontario from 512 Kbps to 1 Mbps. We also offer a Basic Lite DSL service at 128 Kbps and an Ultra high-speed product for residential and SMB customers at 5 Mbps and 6 Mbps, respectively.

In 2006, Inukshuk completed the initial phase of its new wireless broadband network covering five million households, representing 40% of the population in 20 urban centres across Canada. This next-generation IP wireless network, based on pre-WiMax standards, enables portable services allowing subscribers to access the Internet and other applications such as VoIP and video streaming. Inukshuk was launched in 2003 to provide wireless high-speed Internet access across Canada using spectrum in the 2.5 GHz range.

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, we no longer sell legacy data services other than to current customers.

Video services

We are Canada's largest digital television provider, nationally broadcasting over 500 all-digital video and audio channels and a wide range of domestic and international programming. We also offer hardware including personal video recorders (PVRs), iTV services and the most extensive line-up of HD channels in Canada. We currently distribute our video services to more than 1.8 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 and currently use four satellites: Nimiq 1, Nimiq 2, Nimiq 3, and Nimiq 4-Interim. Telesat operates or directs the operation of these satellites.

§ *VDSL* — this allows us to expand our reach to the multiple-dwelling unit (MDU) market. By the end of 2006, we had signed access agreements with a total of 988 buildings and had provisioned 514 of them.

§ *hybrid fibre co-axial cable* — on August 2,2005, we acquired the residential assets of Cable VDN, a Montréal-based cable company selling residential analog and digital TV. Cable VDN has over 14,600 residential cable subscribers in the Montréal area, representing an approximate 28% 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 2007, we intend to continue investing in our IPTV 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 continued technical trials of our IPTV service in 2006. Bell Canada is currently providing limited service in both Montréal and Toronto. IPTV will offer increased inter activity to experience a variety of digital content on television.

Signal piracy continues to be a major issue facing all segments of the Canadian broadcasting industry. During 2006, 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.

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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 and maintenance services for third parties

§ IT services provided by Bell 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:

§ call centre representatives

§ 447 *Bell World*™*/Espace* Bell™ and *Bell Mobility™* retail locations, of which 201 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, Wireless Wave, T-Booth and Costco and regional retailers such as London Drugs and Visions in the West and Audiotronics/Dumoulin in Québec, in addition to a number of independent retailers in all regions

§ the bell.ca website.

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 our 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. In 2006, we continued migrating Bell Mobility customers who receive a single invoice for their other Bell Canada services to One Bill.

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, dedicated sales representatives as well as select value-added resellers. We intend to continue to grow our share of our customers' wallet by expanding our channel mix, cross-selling data connectivity and Internet-based VAS such as security and hosting while expanding our professional services and managed services portfolios. We also intend to continue to focus on simplifying our processes to improve customer experience levels.

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.

Bell Aliant sells its products and services through call centre representatives, 265 independent dealer stores across the six provinces in which it operates and the Bell Aliant website, www.bell.aliant.ca. As well, Bell Aliant is able to facilitate customer payments through over 254 payment agencies in Atlantic Canada. During 2006, Bell Aliant continued efforts to implement measures to simplify and improve 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 Bell Aliant continue to work with Nortel Networks Corporation and Cisco Systems Canada, to establish a national multi-services IP-enabled network.

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.

Our 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, Buffalo, Detroit, Minneapolis, 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 fibre to within 1 km of its residential customers using FTTN technology. By the end of 2006, 3,612 FTTNs were deployed.

In total, our wireless network covered 95% of Ontario's and Québec's population and approximately 90% of Atlantic Canada's population at December 31, 2006. Our 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 wireless data network, 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 and Bell Aliant have extensive copper and voice-switching networks that provide local and interexchange voice services to all of their business and residential customers in Ontario, Québec and the Atlantic provinces.

In 2005, Bell Aliant launched an IPTV service in the Halifax market, and in 2006 continued to expand this service in St. John's, Newfoundland and Labrador and in Moncton, Saint John, and Fredericton in New Brunswick.

Bell Aliant has launched Aliant IP VPN, a next generation business IP wide area network data service, connecting customers' offices and data centres throughout Atlantic Canada to the rest of the country using Bell Canada's national multi-protocol label switching (MPLS) network. This service enhances Bell Aliant's ability to provide ICT solutions that add value and efficiencies to customers' businesses. MPLS is an underlying networking technology that enables delivery of VoIP, IP videoconferencing, IP call center applications and other future IP applications.

At December 31, 2006, Bell Aliant also expanded its high-speed Internet service to pass more than 70% of homes and over 80% of businesses in its territories in Atlantic Canada and in rural Ontario and Québec.

Other BCE segment

The Other BCE segment includes our satellite activities, primarily Telesat. For information with respect to the sale of a significant portion of our Bell Globemedia interest and the proposed sale of Telesat, see *Business highlights — 2006 highlights — Key acquisitions and dispositions.*

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 satellites. These satellites provide broadcast distribution and telecommunication services to customers in North America and South America. Four of these satellites, Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-Interim provide capacity and back-up capability for Bell ExpressVu's DTH satellite television services. An additional satellite has been leased and is expected to be brought into service in the second quarter of 2007 to replace Nimiq 4-Interim which is close to its end of life. Telesat also has two satellites, Anik F3 and Nimiq 4 under construction, which are expected to be launched in 2007 and 2008, respectively, as well as a further satellite under contract, Nimiq 5, expected to be launched in 2009.

On December 18, 2006, BCE Inc. announced the sale of Telesat to a new acquisition company formed by PSP Investments and Loral Space & Communications Inc. for $3.25 billion. The sale is subject to regulatory approval both in Canada and the United States and customary closing conditions, and is expected to close in mid-2007. For more details, refer to *Business highlights — 2006 highlights — Key acquisitions and dispositions.*

The **Competitive Environment** we operate in

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, mainly cable companies entering our markets. We compete with telecommunications and television service providers. We also compete with other businesses and industries, including 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.

Bell Aliant faces a number of different competitors in each of its operating segments and across the geographies it serves. These competitors include long distance carriers, competitive data network providers, equipment manufacturers and retailers, systems integrators, cable companies, Internet-based voice carriers and wireless carriers. Competition from cable companies continues to be Bell Aliant's fastest growing and most pervasive form of competition, particularly in the residential customer base.

The CRTC regulates the prices we can charge for basic access services. See *The Regulatory Environment we operate in* for more information. 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. Changes in our pricing strategies that result in price increases for certain services or products or changes in pricing strategies by our competitors could affect our ability to gain new customers and retain existing ones. We need to be able to anticipate and respond quickly to the constant changes in our businesses and markets.

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 continue in the future, which could materially and negatively affect our financial performance. Certain VoIP technology implementations do not require service providers to own or rent physical networks, which gives other competitors increased access to this market.

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 broadcast distribution undertakings. 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 and how it may affect us.

Wireline

Our main competitors in local and access services are:

- Allstream (a division of MTS Allstream Inc.)
- Cogeco Cable Inc. (a subsidiary of Cogeco Inc.) (Cogeco), in parts of Ontario and Québec
- Eastlink, in the Maritime provinces
- Futureway Communications Inc., in the greater Toronto area
- Maskatel Inc., in Québec
- Primus Telecommunications Canada Inc. (Primus)
- Rogers Cable Inc. (Rogers Cable)
- Shaw Communications Inc. (Shaw), in Western Canada
- TELUS Corporation (TELUS)
- Vidéotron ltée (Vidéotron), in Québec
- Vonage Canada (a division of Vonage Holdings Corp.).

Our major competitors in long distance are:

- Allstream
- Cogeco, in parts of Ontario and Québec
- dial-around providers, such as Yak and Looney Call, which are divisions of YAK Communications (Canada) Inc.
- Eastlink, in the Maritime provinces
- prepaid long distance providers, such as Group of Goldline
- Primus
- Rogers Cable
- TELUS
- Vidéotron, in 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 offering voice services over their networks. Cable telephony is being driven by its

inclusion in discounted bundles and is now offered in numerous markets including Toronto, Montréal, Québec City, Ottawa-Gatineau, Hamilton, London and Kitchener-Waterloo, as well as other smaller centres. Further expansion is expected throughout 2007. The rapid rollout of the cable companies' footprints has put considerable downward pressure on our market share, especially in the residential market.

Although we expect the rate of losses in our residential NAS to stabilize in 2007, this assumption could be adversely affected by the level of intensity applied by our cable competitors in pursuing their voice strategy. This assumption could also be adversely affected by wireline to wireless substitution which could accelerate with the introduction of wireless number portability (refer to *The Regulatory Environment we operate in — Key regulatory issues — Wireless number portability,* for more details concerning the implementation of wireless number portability). Additional competitive pressure is also emerging from other competitors such as electrical utilities. These alternative technologies, products and services are 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. Such competitors may be less concerned about the quality of service or impact on their margins than we are. Competitors are also offering IP-based telephony to business customers at attractive prices.

In Bell Aliant's residential markets, competition for most product lines is maturing. Competition for local telephone service is most mature in Nova Scotia and Prince Edward Island, where it has existed in the residential market since 1999. In 2006, the competitive local service market expanded, with the introduction of local service competition in New Brunswick, Ontario and Québec. In this increasingly competitive residential local service market, Bell Aliant differentiates itself by offering innovative customer solutions, investing in advanced networks, focusing on customer experience, and building its brand through involvement in the communities it serves.

In the business customer base, Bell Aliant is experiencing competition from new sources, most notably IT consulting companies that are increasingly acting as sellers of IP telephony and data solutions for business customers. Bell Aliant's strength is the integration of information and communications technology solutions, and building deep expertise in selected industry verticals.

These competitive factors suggest that the number of our legacy wireline customers 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 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. If legacy service revenues decline faster than the rate of growth in revenues 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. Bringing to market new growth products and services is inherently risky as it requires capital and other investments while the demand for the products or services is uncertain. It may also require us to compete in areas outside our core connectivity business against highly capable global information technology service providers. The launch of new products or services could be delayed or cancelled due to reductions in the amount of available capital to be invested.

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. For example, mobile handsets that connect to wireless Internet access networks are now available from a number of manufacturers and service providers. If these products significantly penetrate the marketplace, usage of our wireless network may decline which would adversely affect our wireless revenues.

In addition, competition could also increase as a result of Industry Canada's intention to initiate a consultation which could result in the licensing of additional mobile spectrum (refer to *The Regulatory Environment we operate in — Consultations — Additional mobile spectrum,* for more details on this subject).

Furthermore, wireless number portability could increase churn beyond our current expectations and adversely affect our estimates concerning our expected number of wireless subscribers in 2007.

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).

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 ISPs to provide broadband and dial-up 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 continue to develop and market services that compete directly with Bell Canada's Internet access 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.

There is a risk that should the pace of our FTTN roll-out be slower than currently contemplated in our business plan, our broadband ISP churn rate could increase beyond our current expectations thereby adversely affecting our expected number of Internet subscribers in 2007. With the rapid growth in video applications on the Internet, there is also a risk that we will need to incur significant capital expenditures to provide additional capacity on our *Sympatico™* Internet network which costs we may not be able to recover initially from customers due to competitors' short term pricing of equivalent Internet services. This could have a material adverse effect on our results of operations.

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

§ Cogeco

§ Eastlink, in the Maritime provinces

§ Persona Communications Corp.

§ Rogers Cable

§ Vidéotron.

In the dial-up market, the Residential segment competes with America Online, Inc., Primus and approximately 400 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. These cable companies have upgraded their networks, operational systems and services, which has improved their competitiveness. This could materially and negatively affect the financial performance of Bell ExpressVu and Bell Canada.

Bell Canada has 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 Canada offers video services through DTH Satellite, VDSL and hybrid fibre co-axial cable. We continued technical trials of our IPTV service in 2006. Bell Canada is currently providing limited service in both Montréal and Toronto.

Bell ExpressVu continues to face competition from unregulated U.S. DTH satellite television services that are illegally sold in Canada. In response, we are 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 the business of Bell ExpressVu and Bell Canada. Bell ExpressVu and Bell Canada's competitors also include Canadian cable companies, such as:

§ Cogeco

§ Eastlink, in the Maritime Provinces

§ Persona Communications Corp.

§ Rogers Cable

§ Shaw

§ Vidéotron.

Wholesale

Our wholesale business' main competitors include traditional carriers and emerging carriers. Traditional, facilities-based competitors include Allstream and TELUS 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 U.S.-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 and other 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.

The **Regulatory Environment** we operate in

This section describes the legislation that governs our businesses, and provides highlights of government consultations and recent regulatory initiatives and proceedings affecting us.

Our business is affected by decisions made by various regulatory agencies, including the CRTC. 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. 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. 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, Bell Aliant and several of Bell Canada's direct and indirect subsidiaries and associated companies, including NorthernTel, Télébec, Northwestel, Bell Mobility and Bell ExpressVu are regulated by the CRTC. Other aspects of the businesses of these companies are regulated in various ways by federal government departments, in particular Industry Canada.

Telecom Policy Review Panel's final report

On March 22, 2006, the Telecommunication Policy Review Panel (Panel), a panel of experts appointed by the Minister of Industry to review Canada's telecommunications policy and regulatory framework and make recommendations, released its final report. The Panel's 127 recommendations included a blueprint for broad fundamental reform of the regulatory framework for telecommunications, the development of a national ICT strategy and the creation of a program to make the availability of broadband as widespread as telephone service. The Panel's report calls for many changes to the regulatory environment that could have a material impact on our business performance. The thrust of the report is that the state of competition in Canada has progressed to the point where, at least for economic regulation, the CRTC should remove most of its existing regulation and instead rely on market forces.

The Panel calls for short-term changes to regulation through a variety of federal government programs and, more significantly, through a policy direction — an instrument whereby the Cabinet can give binding directions on general policy to the CRTC. The Panel also calls for significant changes to the *Telecommunications Act*.

The Panel also recommends a relaxation of Canada's foreign ownership restrictions as they apply to telecommunications common carriers. In addition to the recommendations addressing wireline regulation, the Panel also makes a number of recommendations separately addressing issues related to wireless regulation in Canada. These included, among other things, a recommendation for the continued use of regulatory mechanisms such as spectrum caps (aggregation limits) where spectrum is scarce to provide an opportunity for new entrants to acquire spectrum in order to have an expanded choice of service providers. Other recommendations concerning competitive access to wireless antennae sites and support structures could serve to facilitate competitive entry into the Canadian wireless industry. If implemented, the cumulative effect of such recommendations could have a negative effect on our business and results of operations.

Policy direction

Since the report's release, the federal government has taken several steps to implement the Panel's recommendations. On June 13, 2006, the Minister of Industry issued a policy direction to the CRTC directing it to rely on market forces to the maximum extent feasible and to design regulations that "interfere with the operation of competitive market forces to the minimum extent necessary" (Policy Direction). The Regulatory Impact Statement of the Policy Direction stated: "Issuing a policy direction formally states the government's vision and enables timely change towards more market-oriented regulation in advance of any potential legislative changes." The Policy Direction came into force — after a public consultation process — on December 14, 2006. The CRTC is bound to follow the Policy Direction in making its decisions.

On November 15, 2006 — citing the Policy Direction — the Minister of Industry announced that the government had varied the CRTC's Telecom Decision CRTC 2005-28, *Regulatory Framework for Voice Communications Services Using Internet Protocol,* instructing the CRTC to refrain from economic regulation of certain access-independent VoIP services.

On December 7, 2006 the Minister of Industry tabled Bill C-41 *An Act to Amend the Competition Act* in the House of Commons. Bill C-41 would give the Competition Bureau the power to impose fines or Administrative Monetary Penalties (AMPs) of up to $15 million in cases of abuse of dominance in the telecommunications sector.

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, Bell Aliant, NorthernTel, Northwestel and Télébec.

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, Bell Aliant LP 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.

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 AMPs to parties who contravene the prohibitions regarding unsolicited telemarketing set out in the Bill C-37 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 is not certain when the National Do Not Call List will be operational.

Broadcasting Act

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

Bell Canada holds broadcasting distribution licences for major centres in Ontario and Québec. In addition, four of our partnerships or subsidiaries — Bell ExpressVu, Bell Aliant LP, Northwestel and Cablevision du Nord du Québec Inc., a Télébec subsidiary — have broadcasting distribution licences that allow them to offer services. Bell ExpressVu is permitted to offer services nationally. Bell Aliant LP is permitted to offer services in Newfoundland and Labrador, 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.

The Bell Canada (terrestrial) licences will enable Bell Canada to deliver television using its IPTV platform. We continued technical trials of our IPTV service in 2006. Bell Canada is currently providing limited service in both Montréal and Toronto. Bell ExpressVu also holds licences for Pay-per-view (for both DTH and terrestrial distribution) and video on demand (for terrestrial distribution).

Radiocommunication Act

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

§ radio communication in Canada is developed and operated efficiently

§ the set up of, and any changes to, radio stations are implemented in an orderly manner.

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 and Bell Mobility, 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. 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.

Commitment under the CRTC deferral account mechanism

On February 16, 2006, the CRTC issued Telecom Decision CRTC 2006-9, where it concluded on the ways that incumbent telephone companies should clear the accumulated balances in their deferral accounts. On September 1, 2006, Bell Canada and Bell Aliant filed their proposals for clearing the accumulated balances in their deferral accounts. If approved by the CRTC, the proposals would improve access to communications for persons with disabilities (5% of estimated balance) and extend broadband access to some 220,000 potential customers in 264 communities across Ontario and Québec where it would not otherwise be made available on a commercial basis.

On November 30, 2006, the CRTC issued Public Notice CRTC 2006-15 initiating a proceeding to assess these proposals. A decision in this proceeding is scheduled to be issued in January 2008.

Bell Canada's accumulated deferral account balance at December 31, 2006 is estimated to be $479 million with an estimated future annualized commitment of $24 million. Bell Aliant's accumulated deferral account balance at December 31, 2006 is estimated to be $8 million with no estimated future annualized commitment. Due to the nature and number of uncertainties which remain concerning the disposition of accumulated balances in the deferral account, we are unable to estimate the impact of the CRTC's decision on our financial results at this time.

Price cap framework review

On May 9, 2006, the CRTC issued Telecom Public Notice CRTC 2006-5 initiating a proceeding to establish the price cap framework to replace the existing framework that ends on May 31, 2007. On July 10, 2006, Bell Canada, Bell Aliant and Saskatchewan Telecommunications Holdings Corporation (SaskTel) filed a pricing framework proposal that reflects the significant changes that have taken place in the industry. The new framework would come into effect on June 1, 2007 and apply for a period of two years.

We proposed that the price cap should be removed in areas where services are available via alternative facilities, allowing consumers and competition in these areas to drive market prices. In areas where alternative facilities are not available, we proposed that service prices remain subject to regulation with upward pricing capped, on average, at current levels. In keeping with both the recommendations of the Panel and the Policy Direction, our proposal would interfere with market forces to the least extent possible. The evidence was subject to an interrogatory process as well as a public hearing which took place in October 2006. The CRTC intends to issue a decision on this proceeding by April 30, 2007.

There is a risk that the CRTC may not accept our proposal to rely on market forces to the maximum extent possible and may continue to impose limitations on our marketing flexibility, impeding our ability to respond to market forces.

Review of regulatory framework for wholesale services

As required by the Policy Direction, on November 9, 2006, the CRTC released Public Notice CRTC 2006-14 in which it initiated a comprehensive review of the regulatory framework requiring incumbent telephone companies to provide wholesale access to certain telecommunications services to competitors. As part of this review, the CRTC will examine the appropriate definition of essential services and the pricing principles for such services. In addition, the regulatory treatment for non-essential services will also be examined. A final decision is expected in July 2008. There is no guarantee that the CRTC will issue a favourable decision.

Competitor Digital Network (CDN) services

On February 3, 2005, the CRTC released Telecom Decision CRTC 2005-6 on CDN services. This decision set the rates, terms and conditions for the provision of digital network services by Bell Canada, Bell Aliant 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 Bell 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 new CDN services were applied on a going-forward basis, as of the date of the decision, and Bell Canada and Bell Aliant will be relieved of some of their obligations from the deferral account for the revenue losses from this decision
- Bell Canada's and Bell Aliant's obligations under the deferral account will also be reduced for applying lower rates retroactively for the CDN access components that were tariffed at interim rates prior to the decision.

On February 2, 2007 and February 15, 2007, the CRTC released Telecom Decisions CRTC 2007-6 and 2007-10 respectively, regarding the matters unresolved in Telecom Decision 2005-6 pertaining to the terms and conditions of CDN services. In these rulings the CRTC determined that certain retail service components did not apply to CDN services. Bell Canada and Bell Aliant will be compensated through the deferral account for applying refunds retroactively, and for rate reductions on a going-forward basis.

Forbearance from regulation of local exchange services

On April 6, 2006, the CRTC issued Telecom Decision CRTC 2006-15, which established a framework for the forbearance from regulation of local exchange services. The decision denied Bell Aliant's application for regulatory forbearance in 32 exchanges in Nova Scotia and Prince Edward Island. The denial of Bell Aliant's forbearance application in respect of the Halifax market is the subject of an appeal to the Federal Court of Appeal by Bell Aliant. The Federal Court of Appeal granted Bell Aliant's leave to appeal the decision in an order dated September 22, 2006.

On May 12, 2006, Bell Canada, Bell Aliant, SaskTel and TELUS filed a petition to the Governor-in-Council requesting that the Minister of Industry recommend to the Governor-in-Council that Decision 2006-15 be referred back to the CRTC for reconsideration. Specifically, the companies requested that the CRTC be directed to reconsider the pre-forbearance, forbearance and post-forbearance rules in Decision 2006-15 in light of the conclusions and recommendations contained in the Telecom Panel's final report issued in March 2006.

On June 16, 2006, the CRTC issued Telecom Public Notice CRTC 2006-9, in which it sought comments regarding whether mobile wireless services, or a subset of them, should be considered in the market share loss calculation for local forbearance analysis purposes.

On September 1, 2006, the CRTC issued Telecom Public Notice CRTC 2006-12 in which it sought comments regarding whether the "transitional" market share loss threshold of 20% as a precondition to the repeal of the winback rule and the market share loss threshold of 25% for forbearance established in Decision 2006-15 are appropriate.

On October 5, 2006, TELUS applied to the CRTC to review and vary one of the forbearance criteria defined in Decision 2006-15. TELUS' application requests that the CRTC remove or amend the forbearance criterion requiring incumbent telephone companies to meet certain wholesale quality of service standards.

On December 11, 2006, the Minister of Industry announced a government proposal to change Decision 2006-15 to accelerate deregulation of retail prices of the incumbent telephone companies' local exchange services. The Minister had separately proposed amendments to the *Competition Act* to deter anticompetitive behaviour in the telecommunications industry. The proposed order to vary Decision 2006-15 establishes a forbearance test which (i) is based on the presence of competitors in geographic areas that are smaller and (ii) amends the forbearance criteria related to meeting certain quality of service indicators for incumbent telephone companies' wholesale services. The proposed order would also streamline the forbearance process and eliminate the winback and promotional restrictions in regulated and deregulated areas. The federal government is considering the comments received and must make a final determination by April 6, 2007.

In light of the federal government's proposal to change Decision 2006-15, the CRTC deferred its consideration of the issues in Public Notice 2006-9, Public Notice 2006-12 and TELUS' review and vary application noted above, pending a final determination with respect to the proposed order.

Although the proposed changes to Decision 2006-15 are positive for us, there can be no guarantee that the order will be issued or that the order will not be amended prior to its issuance. Furthermore, there is no guarantee that the outcomes of any of these proceedings will be issued or that the order will improve the likelihood that or speed with which, Bell Canada and Bell Aliant will be granted forbearance for local exchange services.

Winback rules

On April 6, 2006, the CRTC issued decisions relating to winbacks, namely Telecom Decisions CRTC 2006-15 and 2006-16.

In Decision 2006-15, the CRTC reduced the length of the no-winback period for residential customers to 3 months from 12 months. Under the amended winback rule, incumbent telephone companies are now precluded from contacting former residential and business local exchange service customers from the time of the local service request until 3 months after their local service is transferred to a competitor. In Decision 2006-15, the CRTC also ruled that incumbent telephone companies may apply to have the winback rule repealed in any local market where they have lost 20% of market share and in which they have met the relevant competitor quality of service indicators in the 3 months preceding the date of the application.

In Decision 2006-16, the CRTC determined that the winback rule is constitutional because it is justifiable under the *Canadian Charter of Rights and Freedoms* (Charter). The CRTC also decided that, going forward, incumbent telephone companies are now permitted to market non-residential local telecommunications services to a former local exchange customer during, and following, the 3-month no-winback period if that customer did not switch those other services to the competitor at the same time they migrated their local service.

Following applications filed by Bell Canada, Bell Aliant, SaskTel and TELUS, the Federal Court of Appeal granted leave to appeal these decisions in an Order dated September 22, 2006. Bell Canada's and Bell Aliant's flexibility to compete may continue to be encumbered if the Federal Court of Appeal determines that the winback rule is constitutional.

On May 18, 2006, the CRTC released Telecom Decision CRTC 2006-28, *Regulatory issues related to the implementation of wireless number portability.* In that decision the CRTC confirmed that the winback restrictions on incumbent telephone companies do not apply to a wireline-to-wireless port request by a customer in the context of wireless number portability so there will be no restrictions on the ability of either Bell Canada or Bell Mobility to contact a wireline or wireless customer who has transferred to a competitor.

As indicated above, on December 11, 2006, the Minister of Industry announced a government proposal to change Decision 2006-15 to, among other things, eliminate the winback and promotional restrictions in regulated and deregulated areas.

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 CRTC 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.

In Telecom Decision CRTC 2006-28, *Regulatory issues related to the implementation of wireless number portability — Follow-up to Public Notice 2006-3,* issued on May 18, 2006, the CRTC made a number of policy determinations covering a wide range of implementation issues and requested that three CRTC Interconnection Steering Committee working groups undertake various tasks and file reports with the CRTC. In Telecom Decision CRTC 2006-74 issued on November 22, 2006, the CRTC approved with one change the consensus reports. In an application dated May 12, 2006, Bell Canada requested that it be allowed to recover wireline costs related to the implementation of wireless number portability through a drawdown from Bell Canada's deferral account. The CRTC has requested further information from Bell Canada on its application and responses were filed on December 4, 2006. There is no guarantee the CRTC will issue a favourable decision.

Retail quality of service indicators

On March 24, 2005, the CRTC released Telecom Decision CRTC 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.

In the 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 (now Bell Technical Solutions). 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 $18 million. It is not expected that Bell Canada will be required to pay any penalties related to retail quality of service for the period from January 1 to December 31, 2006.

The CRTC determined that Bell Aliant did not meet certain service standards during the period from January 1 to December 31, 2004. Bell Aliant applied to the CRTC for an exclusion from having to pay a penalty in 2004, as well as in 2005, due to below-standard service results caused by its labour disruption in 2004. In Telecom Decision CRTC 2006-27, which was issued on May 16, 2006, the CRTC determined that the labour disruption was partially, but not totally, beyond the control of Bell Aliant. In total, Bell Aliant was directed to provide customer credits totalling $3.5 million on its customers' monthly bills starting no later than June 16, 2006. These customer credits have been applied.

At the same time, Bell Aliant has filed with the CRTC an application to review and vary Decision 2005-17, as applied in Decision 2006-27, so as to indicate that when quality of service is negatively affected by a labour stoppage, the CRTC will impose penalties only where a telephone company has been found to have violated labour relations law or policy, or where it has deliberately sacrificed quality of service to increase profits. The application also seeks a remedial order to recover the cost of the credits already provided to customers. It is likely that the CRTC will not deal with Bell Canada's December 5, 2005 application until it reaches a decision on Bell Aliant's application. The Federally Regulated Employers — Transportation and Communications (FETCO), a national organization representing employers and employer associations across Canada, has also filed a petition with the Governor-in-Council to vary or rescind Decision 2006-27 on the basis that it oversteps the CRTC's jurisdiction and puts at risk well-balanced and well-defined Canadian labour relations policies and law.

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

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

Bell ExpressVu

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.

In November, 2006, the CRTC held a public hearing to review certain aspects of the regulatory framework for over-the-air broadcasters. Among the issues addressed was the possibility of requiring cable and satellite operators to pay over-the-air broadcasters for the right to carry their signals. Under the current copyright and regulatory framework, over-the-air broadcasters are not compensated by cable and satellite operators for distribution of their signals. Bell ExpressVu, along with the cable operators, argued vigorously against a fee-for-carriage regime. A decision is expected in the second quarter of 2007. A decision from the CRTC requiring cable and satellite operators to pay over-the-air broadcasters could have a negative effect on our business and results of operations.

In December 2006, the Federal Court of Canada ruled that the Part II Licence Fees, levied by the CRTC to recover Industry Canada costs associated with broadcasting spectrum management and paid by broadcasters and broadcast distributors, are an illegal tax. These fees represent 1.365% of Bell ExpressVu's annual revenue. The Court's decision is being appealed by the federal government and the Canadian Association of Broadcasters.

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.

Licences and changes to wireless regulation

Licences

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 we 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 us.

As a result of an Industry Canada decision, the cellular and PCS licences under which we 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, our 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.

Wireless and radio towers

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. However, there has been no recent activity on this issue and 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 our operations.

Additional mobile spectrum

On February 16, 2007, Industry Canada initiated a consultation that could result in the licensing of additional mobile spectrum for advanced wireless services in the 1.6, 1.7 and 2.1 GHz bands. The consultation could also make an additional 10 MHz of PCS spectrum available in the 1.9 GHz band. In total, the consultation could make 105 MHz of spectrum available, to be licensed through a competitive spectrum auction likely occurring in early 2008. The consultation seeks comments on a variety of policy and technical issues related to the spectrum, including whether any of the spectrum should be set aside for new entrants. Industry Canada is also seeking comments on whether spectrum caps could be used as an alternative method of facilitating new competitive entry into the Canadian wireless market. Furthermore, Industry Canada is seeking comments concerning the policies related to wireless antennae towers, and whether digital roaming should be mandated among all carriers. The adoption of such measures would strongly facilitate the introduction of new competitor(s) into the Canadian wireless market and would heighten the degree of competition in the already highly competitive wireless segment. Comments are due to be filed with Industry Canada by May 25, 2007 with reply comments due by June 27, 2007.

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 7, 2007, 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 operations. 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.

The statement of claim alleges, amongst other things, breach of contract and duty to inform, deceit, misrepresentation and collusion, 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 sought certification of a national class encompassing all customers of wireless communications service providers wherever resident in Canada.

On July 18, 2006, the Saskatchewan Court of Queen's Bench rendered its judgement on the motion for certification, refusing to certify the action against all defendant Bell Canada companies except Bell Mobility. With respect to Bell Mobility, the Court refused to certify the lawsuit on all grounds except for the claim for unjust enrichment. However, the Court refused to grant certification at this point on the basis that there was no appropriate representative plaintiff and no proper plan for proceeding. The Court gave the plaintiff leave to return to the Court and has scheduled April 4 and 5, 2007 for the re-hearing of the certification application.

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.*

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. In December 2006, identical motions were filed in Ontario, Alberta and British Columbia. The lawsuits have not been certified to proceed as class actions and it is too early to determine whether they will qualify for certification.

The lawsuits were filed on behalf of any person who entered into a contract with Bell Mobility and allege that such persons have unjustly incurred expenses as a result of billing errors made by Bell Mobility following the change of its billing platform. In addition to the reimbursement of such expenses, the class actions would, if certified, also seek payment in the amount of $100 per class member for inconvenience as well as punitive damages in the amount of $200 per class member in Québec, of general damages in the amount of $500 million with no precise amount claimed as punitive damages in Ontario, and of damages with no precise amount in Alberta and British Columbia.

Purported class action concerning Bell ExpressVu 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. 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.

In addition to fighting the motion for certification, Bell ExpressVu has filed a companion motion for summary judgment on the underlying substantive issue that Bell ExpressVu is not violating the *Criminal Code.* The motion for certification is scheduled to be heard on April 1 and 2, 2007. The summary judgment motion is scheduled to be heard on June 5, 2007.

Vidéotron 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 plaintiff 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. Bell ExpressVu filed its defence in November 2006.

Litigation concerning Bell Distribution Inc. (BDI) decision not to proceed with a Wireless Income Fund transaction

On March 28, 2006, a statement of claim was filed in the Québec Superior Court against BDI by 50 independent dealers that own 78 *Bell World™* retail stores. The plaintiffs alleged that: BDI agreed to proceed with a transaction pursuant to which the independent dealer retail stores and BDI-owned retail stores would be sold to a Wireless Distribution Income Fund (WDIF) and that BDI subsequently reneged on this agreement causing damages to the independent dealers; and alternatively, that BDI's refusal to allow the independent dealers to proceed to sell their stores and assign the dealer agreements to the WDIF constitutes an abuse of right and is contrary to BDI's obligations to act fairly and in accordance with reasonable commercial standards. The plaintiffs seek damages against BDI in an amount of $135 million. BDI filed its defence in late fall 2006.

Purported class action concerning Bell Canada and Bell Mobility late payment charges

On June 27, 2006, a motion to obtain the authorization to institute a class action in Québec was served against Bell Canada and Bell Mobility in the province of Québec, in the Québec City District of the Superior Court. The lawsuit was filed on behalf of all persons in Canada that were billed late payment charges by Bell Canada and Bell Mobility despite the fact that customers allegedly paid amounts owing to Bell Canada and Bell Mobility to a financial institution, by Internet, by telephone or by cheque within the payment period indicated on their bills, and/or that suffered damages resulting from a payment allegedly made before the due date, and/or that were allegedly billed, in the case of Québec residents, interest at a rate higher than the legal rate. The lawsuit has not yet been authorized as a class action. The motion seeks an order requiring Bell Canada and Bell Mobility to repay all late payment charges to the members of the class. In addition to the reimbursement of such amounts, the class action would, if authorized, also seek payment of damages and punitive damages by Bell Canada and Bell Mobility.

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, Canadian Imperial Bank of Commerce, Canadian Imperial Bank of Commerce, 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 Inc. 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 Inc. 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 would now 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.

On June 29, 2006, the plaintiffs filed an amended statement of claim in this lawsuit to add certain allegations of material misrepresentations regarding Teleglobe's business plan.

BNP Paribas (Canada) lawsuit

On December 23, 2004, BNP Paribas (Canada), a former plaintiff 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 Ontario Superior Court's jurisdiction on the basis that Québec is the only convenient forum for adjudication of the plaintiff's claims.

The Court dismissed the motion on August 16, 2006. An appeal has been filed by the defendants with the Ontario Court of Appeal regarding that decision.

Teleglobe unsecured creditors lawsuit

A lawsuit was filed in the United States Bankruptcy Court for the District of Delaware (which is now pending in the District 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.

The plaintiffs seek an unspecified amount of damages against the defendants.

In March 2006, the plaintiffs filed an amended complaint to add specific factual allegations. Due to an appeal by the defendants of a decision of the District Court on a preliminary matter, the trial, which was originally scheduled to commence on June 19, 2006, was postponed to a later date to be determined upon the disposition of the appeal of the defendants.

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) now transferred to the United States District Court for the District of Columbia.

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 a Teleglobe Inc. affiliate.

Among other things, the complaint alleges that the defendants misrepresented Teleglobe Inc.'s financial status and its ability to assume certain liabilities related to the transaction. The complaint claims that Teleglobe Inc.'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 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 Inc. as a corporate entity and hold BCE Inc. responsible for its liabilities as Teleglobe Inc.'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 on the merits 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.

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, now Kathy Morgan, in her capacity as Plan Administrator for Teleglobe Inc., 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.

On February 26, 2007, the five former directors filed a third party claim in the Ontario Superior Court of Justice against the former third series preferred shareholders of Teleglobe Inc. As provided by the *Canada Business Corporations Act,* the third party claim seeks to recover from those former third series preferred shareholders any amounts the former directors may have to restore to Teleglobe Inc. as a result of this lawsuit, on account of the redemption of the third series preferred shares.

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.

Teleglobe Inc. was a subsidiary of BCE Inc. when the acts or omissions alleged in the lawsuit would have taken place. Under standard policies and subject to applicable laws, the seven former directors are entitled to seek indemnification from BCE Inc. in connection with this lawsuit.

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Assumptions and Risks underlying our Forward-Looking Statements

Assumptions made in the preparation of Forward-Looking Statements

Forward-looking statements for 2007 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 for 2007 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.

Canadian economic assumptions

§ Canadian GDP growth — essentially in line with GDP growth in 2006, consistent with estimates set by the Conference Board of Canada

§ Canadian business prime rate and Consumer Price Index (estimated by Statistics Canada) — to decline from their 2006 year-end levels.

Canadian market assumptions

§ revenue growth in the overall Canadian telecommunications market — in line with the expected Canadian GDP growth

§ residential wireline voice services revenues — to continue to decrease due to wireless substitution, competition from cable companies and other factors such as e-mail and instant messaging substitution

§ intense wireline competition in both the business and residential telecommunications markets — to continue mainly from cable companies

§ growth in revenues for the Canadian wireless and video markets — similar to the rate of growth in 2006

§ growth in revenues for the Canadian Internet market — slightly lower than the rate of growth in 2006.

Operational and financial assumptions

Operational

§ growth in the number of our wireless, video and high-speed Internet subscribers as well as higher ARPU for these services

§ the rate of losses in our residential NAS to stabilize compared to 2006.

Financial

Financial assumptions applicable to BCE Inc. include the following:

§ the incurrence of restructuring costs related to employee reductions in certain areas of the business and staff relocations to reduce the level of leased office space

§ the increase in amortization expense as a result of capital spending that has been higher than asset retirements over the past few years

§ BCE's effective tax rate to increase as the 2006 effective tax rate benefited from one-time adjustments that are not applicable in 2007

§ no significant escalation in cash taxes as we accelerate the use of Bell Canada's research and development tax credits.

In addition, financial assumptions applicable to Bell Canada (excluding Bell Aliant) include the following:

§ total net benefit plans cost to decrease mainly as a result of improved returns on plan assets and changes to benefit plans

§ funding of our total net benefit plans to decrease due to improved returns on plan assets and contributions made in 2006

§ capital intensity targeted at levels similar to 2006

§ further productivity improvements related to internal process redesign and supply transformation initiatives.

Assumptions about transactions

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

§ BCE Inc. to close the previously announced sale of Telesat in mid-2007.

Risks that could affect our business and results

This section describes the principal risks that could affect our business and results, in addition to those previously described under *The Competitive Environment we operate in* and *The Regulatory Environment we operate in.*

A risk is the possibility that an event might happen in the future that could have a negative effect on our financial condition, results of operations or business. Part of managing our business is to understand what these potential risks could be and to mitigate them where we can (see *Risk management practices* below).

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.

As a result of BCE Inc.'s strategy of concentrating on Bell Canada's communications business and the recently completed and announced dispositions of BCE Inc.'s non-core assets, BCE Inc.'s financial performance now depends on how well Bell Canada performs financially. Accordingly, the risk factors described in this section mainly relate to the operations and businesses of Bell Canada and its subsidiaries, joint ventures and associated companies.

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. If there is a decline in economic growth and in retail and commercial activity, there could 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 also could 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.

Strategies and plans

We continue to implement our strategy of delivering unrivalled integrated communications services to our customers across Canada. Our strategic direction requires us to continue to transform our cost structure and the way in which we serve customers in the context of the competitive and regulatory environment described above. This means we will need to continue to:

§ respond by adapting to these changes and making 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.

Transforming our cost structure and containing capital intensity

Our strategies and operating priorities along with mandated price reductions require us to continue to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures. Our objectives for cost reduction/productivity improvements continue to be aggressive and there is no assurance that we will be successful in reducing costs. There will be a material and negative effect on our profitability if we do not successfully maintain the quality of our service while managing our capital expenditures and implementing these cost reduction initiatives and productivity improvements.

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 ARPU. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either or both 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. 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 financial performance targets.

We may face additional 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.

We are in the process of moving traffic on our core circuit-based infrastructure to IP technology. As part of this move, we 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 we cannot discontinue these services as planned, we 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. New products or services that use new or evolving technologies could reduce demand for our existing offerings or cause prices to fall.

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. In addition, we have outsourced certain services to providers that operate outside of Canada. Although we have redundancy and network monitoring systems in place, a major natural disaster that affects the regions in which our service providers operate, or other events adversely affecting the business or operations of such service providers, could have a material negative effect on our service levels.

Cisco Systems Inc. (Cisco) recently issued three security advisories that may impact certain of our clients with Cisco routers running on the Internetwork Operating System. Bell Canada is working closely with Cisco to mitigate potential effects of these vulnerabilities.

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 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.

Renegotiating labour agreements

Approximately 46% 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 or other work disruption occurs, it would not adversely affect service to our 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.

The collective agreements between the CEP and Expertech representing approximately 160 clerical and 1,300 craft and services employees have both expired on November 30, 2006. The parties have been in negotiations since November 2006. A first offer by Expertech was rejected by both bargaining units' employees on December 20, 2006.

On February 26, 2007, the craft and services employees rejected Expertech's final offer at 64.5% whereas its clerical employees accepted the offer at 78.3%. Expertech's craft and services employees will obtain their right to strike if and once the CEP gives 72-hours notice to Expertech indicating the date after which a strike will occur.

As a result of this vote, Expertech declared it was unable to restructure its operations and announced the wind-down of its operations. Bell Canada announced that it would work with Expertech toward an orderly and timely wind-down of its activities and would transfer its work to many local suppliers in Québec and Ontario.

On March 5, 2007, the CEP and Expertech announced that an agreement had been reached on some refinements to Expertech's final offer that, if accepted by union members, would allow Expertech to avoid closure. This offer has been put to a vote by the craft and services employees. The results will be announced on March 19, 2007.

As part of the bargaining process, the CEP filed, in December 2006, a single employer and a sale of business application before the CIRB against Bell Canada and Expertech. Hearings are scheduled in May and June 2007. Should the CEP be successful with these applications, Bell Canada could be bound by the collective agreements now covering Expertech's employees.

An arbitration decision was received by Expertech in December 2006 under which it was ordered to make the Bell Canada 2004 VER program available to all employees covered by the craft and services collective agreement.

For collective agreements that expire in 2007 see *About BCE — Our employees.*

Epidemics, pandemics and other health risks

Epidemics (e.g. SARS) and pandemics, as well as other health risks, could occur and impact our operations. Our operations depend on timely replacement and maintenance of our networks and equipment (refer to *Events affecting our networks* above) and our ability to service our customers. In certain aspects of our solution delivery we rely on third parties for services. Should an influenza pandemic occur it is possible that we would be unable to maintain the network and service our customers in a timely manner, resulting in an interruption or failure of certain of our normal business functions or operations, which could have a material adverse effect on our results of operations, liquidity or financial condition. We are taking appropriate prudent measures to mitigate these risks.

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 our business. 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 could have a material and negative effect on our wireless business.

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 our wireless business.

Bell ExpressVu

Bell ExpressVu currently uses four satellites, Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-Interim, for its video services. An additional satellite has been leased and is expected to be brought into service in the second quarter of 2007 to replace Nimiq 4-Interim which is close to the end of its life. Telesat, a subsidiary of BCE Inc., operates or directs the operation of these satellites.

Satellites are subject to significant risks (refer to the section below entitled *Telesat* for more details concerning such 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 will require additional satellite capacity to meet the bandwidth requirements for additional HD channels in the future. Bell ExpressVu has supported Telesat's application to Industry Canada for additional satellite spectrum licences to facilitate the additional satellite capacity. If Telesat is unsuccessful in obtaining such additional spectrum licences, Bell ExpressVu may not have access to the necessary satellite capacity to launch the number of HD channels contemplated by its business plan, which could have a material and negative effect 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. The smart card swap was introduced in phases and was completed in July of 2005. 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.* This decision has been overruled by the Québec Superior Court and the Québec Court of Appeal has upheld the Superior Court's decision. The defendants are now seeking leave to appeal to the Supreme Court of Canada. Should leave to appeal be granted and should the ruling of the Québec Court of Appeal be overruled by the Supreme Court of Canada and Parliament does not enact new provisions criminalizing the unauthorized reception of satellite signals, Bell ExpressVu could face increasing loss of revenue from the unauthorized reception of satellite signals.

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 (including accounts receivable).

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 or meet our financial obligations. Business acquisitions could also lower our credit ratings and have similar adverse consequences.

Our ability to raise financing depends on our ability to access the capital markets and the syndicated commercial loan market. The cost and amount of funding depend 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 and the amount of funding available could be reduced. 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 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, payment of our contractual obligations, including repayment of our outstanding debt, payment of dividends to shareholders and share buy-backs.

Our plan in 2007 is to generate enough cash from our operating activities which, together with cash on hand, is expected to pay for capital expenditures, dividends and share buy-backs. We expect to pay contractual obligations maturing in 2007 from cash on hand, from cash generated from our operations, by issuing debt and by selling non-core assets. 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 other 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

§ limit the size of our share buy-back program

§ 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.

On December 18, 2006, BCE Inc. announced the sale of its satellite services subsidiary Telesat. BCE Inc.'s 2007 financial plan assumes completion of the above-mentioned sale of Telesat. However, this transaction will take several months to complete and remains subject to a number of approvals and closing conditions, including approval

by Industry Canada and the United States Federal Communications Commission and other closing conditions that are customary in a transaction of this nature, including the absence of a material adverse change affecting Telesat's business and the ability of the purchaser to draw on its committed financing to raise the proceeds needed to pay BCE Inc. BCE Inc.'s inability to complete the proposed transaction would have an adverse effect on its liquidity and 2007 financial plan.

Litigation, regulatory matters and changes in laws

Regulatory initiatives or proceedings and pending or future litigation, including the increase in 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. These include changes in tax laws or the adoption of new tax laws that result in higher tax rates or new taxes. They also include recent amendments to the securities laws of certain provinces of Canada which introduced statutory civil liability for misrepresentations in continuous disclosure.

For a description of certain regulatory initiatives and proceedings affecting us, please see *The Regulatory Environment we operate in.*

Pension fund contributions

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

§ changes in pension regulations.

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.

BCE Inc.'s sources of income and assets

BCE Inc. has no material sources of income or assets of its own, other than the interests that it has in its subsidiaries, joint ventures and significantly influenced companies, including its ownership of all of the outstanding common shares of Bell Canada. BCE Inc.'s cash flow and, consequently, its ability to service its indebtedness and to pay dividends on its equity securities are therefore dependent upon the ability of its subsidiaries, joint ventures and significantly influenced companies to pay dividends or otherwise make distributions to it. As a result of BCE Inc.'s strategy of focusing on its communications business, the business of Bell Canada now represents, and is expected in the future to continue to represent, substantially all of BCE Inc.'s business and investment activity. Therefore BCE Inc.'s financial performance is, and is expected to continue to be, dependent on the operations and financial performance of Bell Canada. BCE Inc.'s subsidiaries, joint ventures and significantly influenced companies are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any dividends or make any other distributions to BCE Inc. In addition, any right of BCE Inc. to receive assets of its subsidiaries, joint ventures and significantly influenced companies upon their liquidation or reorganization will be structurally subordinated to the prior claims of creditors of such subsidiaries, joint ventures and significantly influenced companies.

Dividend Policy

On December 12, 2006, BCE Inc. announced the establishment of a dividend policy based on a target dividend payout percentage range of earnings per share before net gains (losses) on investments and restructuring costs. However, based on the prevailing competitive and technological environment at any given time, there can be no guarantee that BCE Inc.'s dividend policy will be maintained. Refer to the sections above entitled *Anticipating technological change and investing in new technologies, products and services* and *Liquidity* and in the section *The Competitive Environment we operate in* for more information on these risks and their potential impact on our businesses, revenues, cash flows and capital expenditures which in turn could adversely affect BCE Inc.'s ability to maintain its dividend policy.

Bell Aliant cash distributions and tax treatment of income trusts

Although Bell Aliant intends to make cash distributions to its unitholders, including BCE, there can be no guarantee regarding the amounts of these cash distributions, which may fluctuate with Bell Aliant's performance. Bell Aliant also has the discretion to establish cash reserves for the proper conduct of its business which would reduce the amount of cash otherwise available for distributions in that year. Accordingly, there can be no assurance regarding the actual levels of distributions by Bell Aliant.

On October 31, 2006, the federal government announced significant changes to the tax treatment of income trusts. Effective in 2011, income trusts that were publicly traded before November 2006, like Bell Aliant, will be subject to taxation at corporate tax rates and certain distributions to unitholders will be taxed like dividends received from a corporation. All else being equal, the taxation of income trusts at corporate tax rates may result in less cash being available to pay distributions by Bell Aliant. The federal government specified at that time that while there was no intention to prevent existing income trusts from normal growth during the transitional period, any undue expansion of an existing income trust before 2011 would make the new rules effective immediately.

On December 15, 2006, the federal government issued a release clarifying what would be considered undue expansion. In that release, the Government stated that it would not recommend any change to the 2011 effective date in respect of any existing income trust whose equity capital grew as a result of issuances of new equity in any of the intervening periods by an amount that did not exceed the greater of $50 million and a safe harbour amount. The safe harbour amount is to be measured by reference to an income trust's market capitalization as of the end of trading on October 31, 2006. Market capitalization is to be measured in terms of the value of an income trust's issued and outstanding publicly traded units. For this purpose, it would not include debt (whether or not that debt carried a conversion right or was itself publicly traded), options or other interests that were convertible into units of the income trust. For the period from November 1, 2006 to the end of 2007, an income

trust's safe harbour will be 40% of that October 31, 2006 benchmark. An income trust's safe harbour for each of the 2008 through 2010 calendar years will be 20% of that benchmark, allowing cumulative growth of up to 100% over the four-year transition period. The release also indicated that the merger of two or more income trusts, each of which was publicly traded on October 31, 2006, or a reorganization of such an income trust, would not be considered growth to the extent that there was no net addition to equity as a result of the merger or reorganization. Based on the release, the privatization of Bell Nordiq and the proposed acquisition of Amtelecom Income Fund should not represent 'undue expansion'. The release also indicated that conversions of income trusts back to corporations would be allowed to take place without any tax consequences to investors.

Based on the federal government announcements to date, it is anticipated that distributions will be impacted by taxation in 2011 or earlier if it is determined that Bell Aliant has experienced undue expansion prior to 2011.

However, the exact legislation that will implement the release has not been made public so there is uncertainty as to the reach and application of this announcement. It is therefore possible that the anticipated new tax measures for existing income trusts may be different from what was announced and which could result in, amongst other things, the earlier application of these measures.

Stock market volatility

Differences between BCE Inc.'s actual or anticipated financial results and the published expectations of financial analysts may contribute to volatility in BCE Inc.'s securities. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of BCE Inc.'s securities, may materially and negatively affect our ability to raise capital, issue debt, make strategic acquisitions or enter into joint ventures.

Acquisitions and dispositions

Our business plans include 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 partner with, or that we will have the financial resources needed to complete any acquisition or 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.

Telesat

Satellite industry risks

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 that could reduce the satellites' commercial lives. Acts of war or terrorism, magnetic, electrostatic or solar storms, and space debris or micrometeoroids could also damage Telesat's satellites.

Any single anomaly or series of anomalies or other failure (whether full or partial) of one of Telesat's satellites could cause its revenues, cash flows and backlog to decline materially, could require Telesat to repay prepayments made by customers of the affected satellite and could materially and adversely affect its relationships with current customers and its ability to attract new customers for satellite services. A failure could result in a customer terminating its contract for service on the affected satellite.

Launch failures

Satellites are subject to certain risks related to failed launches. Launch vehicles may fail resulting in significant delays in the deployment of satellites because of the need to construct replacement satellites, which typically takes up to 30 months or longer, and to obtain another launch vehicle. Such significant delays could materially and adversely affect operations, revenues, cash flows and backlog.

Construction and launch delays

The launch of satellites is subject to certain delays. Launch delays can result from delays in the construction of satellites and launch vehicles, the periodic unavailability of reliable launch opportunities, possible delays in obtaining regulatory approvals and launch failures. If satellite construction schedules are not met, a launch opportunity may not be available at the time the satellite is ready to be launched. Delays in the commencement of service could enable customers who have contracted for transponder capacity to terminate their contracts, could affect plans to replace an in-orbit satellite prior to the end of its useful life, could result in the expiration or cancellation of launch insurance and could result in the loss of orbital rights. The failure to implement a satellite deployment plan on schedule could have a material adverse effect on Telesat's financial condition and results of operations.

Market for satellite insurance

Telesat's current satellite insurance does not protect it against all satellite-related losses that it may experience, and it does not have in-orbit insurance coverage for all of the satellites in its fleet. The insurance will not protect Telesat against business interruption, lost revenues or delay of revenues.

To the extent Telesat experiences a launch or in-orbit failure that is not fully insured, or for which insurance proceeds are delayed or disputed, it may not have sufficient resources to replace the affected satellite.

Risk management practices

BCE Inc.'s audit committee (Audit Committee) is responsible for the oversight of our risk management processes. Such processes are designed to manage, rather than eliminate, the risk of failure to achieve our business objectives. The Audit Committee also takes into account significant social, environmental and ethical matters that relate to our business and reviews annually our corporate social responsibility program.

We have enterprise-wide risk assessment processes which incorporate the internal control and enterprise risk management frameworks of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Risk assessment and evaluation is an important part of the annual business planning cycle. In developing their annual plans, BCE's business units identify and assess significant risks to the achievement of their business objectives and where necessary develop mitigation plans. The risk information generated is reviewed with senior management and BCE Inc.'s board of directors in evaluating the business plans for each of the business units and the company as a whole. The Internal Audit group plans its annual activities employing a risk-based review of internal control processes in the company. Throughout the year the Internal Audit group carries out continuing assessments of the quality of controls. On a quarterly basis the Internal Audit group reports to the Audit Committee on the status of adherence to our internal control policies and on areas identified for specific improvement. The Internal Audit group also promotes effective risk management in our lines of business.

The Audit Committee considers the effectiveness of the operation of our internal control procedures, reviewing reports from the Internal Audit group and BCE Inc.'s external auditors. The Audit Committee reports its conclusions to BCE Inc.'s board of directors.

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Management's **Discussion and Analysis**

The information that appears on pages 2 to 61 of the Bell Canada Enterprises 2006 Annual Report under *Management's Discussion and Analysis* is incorporated herein by reference. Our annual report is available on SEDAR at www.sedar.com, on EDGAR at www.sec.gov and on BCE Inc.'s website at www.bce.ca.

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
- BCE Inc.'s most recent Business Update and annual report, which includes the comparative financial statements and management's discussion and analysis for the most recently completed financial year together with the accompanying auditors' report
- any interim financial statements that were filed after the financial statements for the 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 Senior Vice-President — Finance and 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 BC E 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.

The register for Bell Canada's debentures is kept at the principal office of CIBC Mellon Trust Company (CIBC Mellon), in Montréal, and facilities for registration, exchange and transfer of the debentures are maintained at the principal offices of CIBC Mellon in Halifax, Montréal, Toronto, Winnipeg, Calgary and Vancouver.

The transfer agent and registrar for Bell Canada's U.S. debentures is U.S. Bank Trust National Association at its office in New York.

The register for Bell Canada's subordinated debentures is kept at the principal office of Computershare, in Montréal, and facilities for registration, exchange and transfer of the subordinated debentures are maintained at the principal offices of Computershare in Halifax, Montréal, Toronto, Calgary and 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 2006.

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

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Schedule 1 — **Audit Committee Information**

1. The audit committee's charter

The BCE Inc. 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'Neill — Chair	Yes	Yes
A. Bérard	Yes	Yes
A.S. Fell	Yes	Yes
J. Maxwell	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 at the National Bank of Canada 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.

A.S. Fell

Mr. Fell has been a director on the BCE Inc. board since January 2002. He is Chairman of the board, RBC Dominion Securities Limited since December 1999. Mr. Fell was previously the Chairman of the board and Chief Executive Officer of RBC Dominion Securities Limited from 1992 to December 1999. He is also a director and Chair of the board of Munich Reinsurance Company of Canada. He was also, until June 2005, Chairman of the University Health Network Trustees.

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.

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 in 1994. He also served as Deputy Minister of the Treasury Board and special advisor to the Premier of Newfoundland and Labrador, 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 Auditors Independence Policy is a comprehensive policy governing all aspects of BCE's relationship with the external auditors, including:

- establishing a process for determining whether various audit and other services provided by the external auditors affect its independence
- identifying the services that the external auditors may and may not provide to BCE Inc. and its subsidiaries

- pre-approving all services to be provided by the external auditors of BCE Inc. and its subsidiaries, and
- establishing a process outlining procedures when hiring current or former personnel of the external auditors in a financial oversight role to ensure auditors' independence is maintained.

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

9. External auditors' service fees (by category)

The table below shows the fees that Deloitte & Touche LLP billed to BCE Inc. and its subsidiaries for various services for each year in the past two fiscal years. Fees for audit services increased in 2006 due primarily to additional audit work on internal control over financial reporting (ICFR) as a result of the requirements of the Sarbanes-Oxley Act.

(IN $ MILLIONS)	**2006**	2005
Audit fees	**$13.6**	$10.0
Audit-related fees	**$ 5.2**	$ 1.7
Tax fees	**$ 0.9**	$ 1.4
Other fees	**—**	—
Total	**$19.7**	$13.1*

* Restated to exclude fees billed to BCE Inc. for work related to CTVglobemedia Inc. (formerly Bell Globemedia Inc.).

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 audit of the effectiveness of ICFR, 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 tax compliance, tax advice and assistance with tax audits and appeals. Prior to October 2005, these fees included fees for services with respect to compliance with our conflict of interest policy for senior management, which services are no longer provided by the external auditors.

Other fees

These fees include any other fees for permitted services not included in any of the above-stated categories. No such service were provided in the last two fiscal years.

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Schedule 1A — **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' auditors;

D. the performance of the Corporation's shareholders'auditors 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' auditors 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' auditors 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' auditors or access to requested information and any significant disagreements with management.

3. Review and discuss reports from the shareholders' auditors 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' auditors; and

   c. other material written communications between the share holders' auditors and management, and discuss such report with the shareholders' auditors.

B. Oversight of the shareholders' auditors

1. Be directly responsible for the appointment, compensation, retention and oversight of the work of the shareholders' auditors and any other auditors 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' auditors.

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' auditors to the Corporation and any consolidated subsidiary and any other auditors 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' auditors to the Corporation and any consolidated subsidiary and to this effect may establish policies and procedures for the engagement of the shareholders' auditors 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' auditors 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' auditors.

6. At least annually, consider, assess, and report to the Board of Directors on:

a. the independence of the shareholders' auditors, including whether the shareholders' auditors' performance of permitted non-audit services is compatible with the shareholders' auditors' independence;

b. obtaining from the shareholders' auditors a written statement (i) delineating all relationships between the shareholders' auditors 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' auditors; 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' auditors describing:

a. the shareholders' auditors' internal quality-control procedures;

b. any material issues raised by the most recent internal quality-control review, or peer review of the shareholders' auditors 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' auditors firm, and any steps taken to deal with any such issues.

8. Resolve any disagreement between management and the shareholders' auditors regarding financial reporting.

9. Review audit plan with the shareholders' auditors.

10. Meet periodically with the shareholders' auditors 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' auditors.

D. Oversight of the Corporation's internal control system

1. Review and discuss with management, the shareholders' auditors 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' auditors and internal audit.

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' auditors 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' auditors, 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**

Certain capitalized words and terms used throughout this AIF are defined below:

1xRTT means single carrier radio transmission technology;

2006 NCIB means the Normal Course Issuer Bid commenced on February 3, 2006;

3G means third generation;

360networks means 360networks Corporation;

AIF means this Annual Information Form;

Aliant means Aliant Inc.;

Aliant Telecom means Aliant Telecom Inc.;

Allstream means a division of MTS Allstream Inc.;

AMPs means Administrative Monetary Penalties;

ARPU means average revenue per user;

Audit Committee means BCE Inc.'s audit committee;

BCE means BCE Inc., its subsidiaries, joint ventures and associated companies;

BCE new preferred shares means new first preferred shares of BCE Inc.;

BCH means Bell Canada Holdings Inc.;

BCI means Bell Canada International Inc.;

BDI means Bell Distribution Inc.;

Bell Aliant LP means Bell Aliant Regional Communications, Limited Partnership;

Bell Canada preferred shares means Bell Canada's Class A preferred shares;

Bell ExpressVu means Bell ExpressVu Limited Partnership;

Bell Globemedia means Bell Globemedia Inc.;

Bell Mobility means Bell Mobility Inc.;

Bell Nordiq means Bell Nordiq Income Fund;

Bell Technical Solutions means Bell Technical Solutions Inc.;

Cable VDN means Cable VDN Inc.;

Call-Net means Call-Net Enterprises Inc.;

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 Mellon means CIBC Mellon Trust Company;

CIRB means the Canada Industrial Relations Board;

Cisco means Cisco Systems Inc.;

Clearwire means Clearwire Corporation;

CLEC means competitive local exchange carrier;

Cogeco means Cogeco Cable Inc.;

Computershare means Computershare Trust Company of Canada;

Connexim means Connexim Inc.;

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.;

CTVglobemedia means CTVglobemedia Inc.;

DBRS means Dominion Bond Rating Service Limited;

DSL means digital subscriber line;

DTH means direct-to-home;

EBITDA means earnings before interest, taxes, depreciation and amortization;

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.;

FETCO means Federally Regulated Employers — Transportation and Communications;

Fitch means Fitch Ratings Ltd.;

FTTN means fibre-to-the-node;

GeSI means Global e-Sustainability Initiative;

Group Telecom means GT Group Telecom Services Corporation;

HD means high-definition;

ICFR means internal control over financial reporting;

ICT means information and communications technology;

Inukshuk means Inukshuk Wireless Inc.;

IP means Internet Protocol;

IP PBX means IP Private Branch Exchange;

IPTV means video over Internet Protocol;

IS/IT means information systems/information technologies;

ISP means Internet service provider;

IT means information technology;

iTV means interactive TV;

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.;

Motient means Motient Corporation;

MPLS means multi-protocol label switching;

MSV means Mobile Satellite Ventures, L.P.;

MTNs means medium term notes;

MTS means Manitoba Telecom Services Inc.;

NAS means network access services;

NLOS means non line-of-sight;

NorthernTel means NorthernTel, Limited Partnership;

Northwestel means Northwestel Inc.;

NYSE means New York Stock Exchange;

Panel means Telecommunication Policy Review Panel;

Primus means Primus Telecommunications Canada Inc.;

PSP Investments means Public Sector Pension Investment Board;

PVRs means personal video recorders;

ROBTv means Report on Business Television;

Rogers means Rogers Communications Inc.;

Rogers Cable means Rogers Cable 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 Saskatchewan Telecommunications Holding Corporation;

SFUs means single family units;

Shaw means Shaw Communications Inc.;

SkyTerra means SkyTerra Communications, Inc.;

SMB means small and medium-sized businesses;

Smiston means Smiston Communications Inc.;

STB means set-top box;

Télébec means Télébec, Limited Partnership;

Teleglobe means Teleglobe Inc. and Teleglobe Holdings (U.S.) Corporation;

Telesat means Telesat Canada;

TELUS means TELUS Corporation;

TerreStar means TerreStar Networks, Inc.;

TSX means the 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 data rate DSL;

VER means Voluntary Early Retirement;

Vidéotron means Vidéotron ltée;

VoIP means Voice over Internet Protocol;

VPN means virtual private network;

WDIF means Wireless Distribution Income Fund;

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 14, 2007

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TO FORM 40-F

Bell Canada Enterprises 2006 Annual Report	Exhibit 99.1
Consent of Independent Registered Chartered Accountants	Exhibit 99.2
Reconciliation of Canadian GAAP to United States GAAP	Exhibit 99.3
Report of Independent Registered Chartered Accountants on Reconciliation of Canadian GAAP to United States GAAP	Exhibit 99.4
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

EXHIBIT 99.1

Bell Canada Enterprises

2006 Annual Report

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Management's Discussion and Analysis

In this management's discussion and analysis of financial condition and results of operations (MD&A), we*,* us*,* our *and* BCE *mean BCE Inc., its subsidiaries and joint ventures. References to Bell Aliant include matters relating to, and actions taken by, both Aliant Inc. (Aliant) and its affiliated entities prior to July 7, 2006, and Bell Aliant Regional Communications Income Fund and its affiliated entities on and after such date.*

All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted. Please refer to our glossary on pages 106—107 for a list of defined terms.

Please refer to BCE Inc.'s audited consolidated financial statements for the year ended December 31, 2006 when reading this MD&A. Please also refer to "The Quarter at a Glance" section at pages 6 to 17 of BCE Inc.'s 2006 Fourth Quarter Investor Briefing dated February 6, 2007, which pages are incorporated herein by reference, for a more detailed discussion of BCE's operational and financial results for the fourth quarter of 2006.

You will find more information about BCE, including BCE Inc.'s audited consolidated financial statements and annual information form dated March 7, 2007 (BCE 2006 AIF) for the year ended December 31, 2006 and recent financial reports, including BCE Inc.'s 2006 Fourth Quarter Investor Briefing, on BCE Inc.'s website at www.bce.ca, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

This MD&A comments on BCE's operations, performance and financial condition for the years ended December 31, 2006 and 2005.

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 2006 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. 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*. 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. It is important to know that:

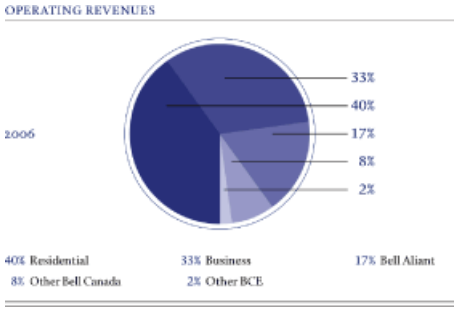
- **unless otherwise indicated, forward-looking statements in BCE's 2006 annual report, including in this MD&A, describe our expectations at March 7, 2007**
- our actual results could differ materially from what we expect if known or unknown risks affect our business, or if our estimates or assumptions 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 or revise 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 2006 annual report, including in this MD&A, such as certain Canadian economic and 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, 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 MD&A and, in particular, in the section entitled *Assumptions and Risks Underlying Our Forward-Looking Statements*. Important additional assumptions and risks are also discussed under the sections entitled *Competitive Environment* and *Regulatory Environment*.

About Our Business

BCE is Canada's largest communications company. Bell Canada, which encompasses our core business operation, 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 reflecting a distinct customer group: Residential, Business, Bell 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 3 to the consolidated financial statements for additional information about our segments. We also discuss our results by product line to provide further insight into these results.

The chart below shows the operating revenues that each segment contributed to total operating revenues for the year ended December 31, 2006. 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. 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 provides local telephone, long distance, wireless, Internet access, video and other services to Bell Canada's residential customers, mainly in urban Ontario and Québec. Wireless services 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).

BUSINESS SEGMENT

The Business segment provides local telephone, long distance, wireless, data (including Internet access) and information and communications technology (ICT) 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.

BELL ALIANT SEGMENT

Formed on July 7, 2006, Bell Aliant is North America's second largest regional telecommunications service provider and the largest business trust in Canada, providing local telephone, long distance, data (including Internet access), and other services to residential and business customers in Atlantic Canada and parts of Central Canada. Bell Aliant combines Bell Canada's former regional wireline operations in the less populated areas of Ontario and Québec with Aliant's former wire-line, information technology (IT) and related operations in Atlantic Canada, and also includes Bell Canada's former 63.4% interest in NorthernTel Limited Partnership (NorthernTel) and Télébec Limited Partnership (Télébec) held indirectly through Bell Nordiq Group Inc. (Bell Nordiq). At December 31, 2006, BCE owned approximately 45% of Bell Aliant. The remaining 55% was publicly held.

OTHER BELL CANADA SEGMENT

The Other Bell Canada segment includes Bell Canada's Wholesale business and the financial results of 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. Northwestel provides telecommunications services to less populated areas of Canada's northern territories. At December 31, 2006 Bell Canada owned 100% of Northwestel.

OTHER BCE SEGMENT

The Other BCE segment includes the financial results of our satellite services subsidiary, Telesat Canada (Telesat), as well as our corporate office.

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. Consistent with its strategy of concentrating on its core communications business, BCE Inc. announced the sale of Telesat to a new company formed by Canada's Public Sector Pension Investment Board (PSP Investments) and Loral Space & Communications Inc. (Loral) on December 18, 2006. BCE Inc. will, at closing of the sale, realize total proceeds of $3.25 billion from the all-cash transaction. The sale is subject to customary closing conditions, including regulatory approval both in Canada and the United States and the absence of a material adverse change affecting Telesat's business. The transaction is expected to close in mid-2007. In conjunction with the sale, BCE Inc. has put into place a set of commercial arrangements between Telesat and Bell ExpressVu that guarantee Bell ExpressVu access to current and expanded satellite capacity, including services available after the launch of Telesat's Nimiq 5 satellite in 2009. We do not account for Telesat as discontinued operations because of the ongoing commercial relationships between BCE and Telesat that will continue after the sale is complete.

A transaction involving the reorganization of the ownership of CTVglobemedia Inc. (CTVglobemedia, formerly Bell Globemedia Inc.) was announced on December 2, 2005 and completed on August 30, 2006. As of August 31, 2006, we have accounted for CTVglobemedia as a discontinued operation and no longer consolidate its financial results. Our remaining 15% investment is accounted for at cost.

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 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:

- value-added services (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 service providers
- 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 Canadian Radio-television and Telecommunications Commission (CRTC). Although these regulations continue to restrict our local and access business with respect to bundling and packaging of local services with other non-regulated services and limitations on customer winback promotions, on December 11, 2006 the federal government put forth a proposal to accelerate deregulation of retail telephone prices by implementing new forbearance criteria based on either a competitive facilities-based or competition-based test. Under the new proposal, restrictions on customer winbacks and other promotions would be immediately ended. In addition, the CRTC would consider each forbearance application on a priority basis and would make a decision within 120 days. We believe that the federal government proposal could be adopted as early as the end of the first quarter of 2007.

The local telephone services market became increasingly competitive in 2006 as the major cable operators in our Québec and Ontario markets expanded the reach of their low-priced cable telephony services.

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 2006, our long distance services business continued to face intense competitive pressure given the expanded presence of cable telephony and the continuing impact from non-traditional suppliers (i.e., prepaid card, dial-around and other voice over Internet protocol (VoIP) providers).

Wireless Services

We offer a full range of wireless voice, data and paging communications products and services to residential and business customers across Canada. We also provide an array of VAS across our voice and data platforms such as call display and voicemail, e-mail and video streaming, music downloads, ringtones and games, as well as roaming services with other wireless service providers. Customers can choose to pay for their services through a monthly rate plan (postpaid) or in advance (prepaid). At the end of 2006, we had approximately 5.9 million wireless customers and 0.3 million paging customers.

Our wireless division, Bell Mobility Inc. (Bell Mobility), provides wireless communications services nationwide under the Bell Mobility, Solo Mobile and Aliant Mobility brands. During 2006, Solo Mobile was repositioned in the wireless market as a value brand that broadly appeals to mass-market consumers instead of a brand that is geared primarily towards the youth segment. In addition, we have a joint venture with the Virgin Group to offer wireless services under the Virgin brand across Canada.

Our wireless network provides voice services, and data services at typical transmission speeds of approximately 120 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 kilobits per second (Kbps) with peaks of up to 2.4 megabits per second (Mbps). We expect to continue our deployment of EVDO in other major Canadian urban centres and other areas in 2007.

At the end of 2006, our wireless network covered:

- 95% of the population of Ontario and Québec
- approximately 90% of the population of Atlantic Canada
- the major cities in the provinces of Alberta and British Columbia.

Data Services

High-speed Internet access service provided through digital subscriber line (DSL) technology for residential and business customers is a growth area for Bell Canada. At the end of 2006, we had approximately 2.5 million high-speed Internet customers.

Our DSL high-speed Internet access footprint in Ontario and Québec reached more than 89% of homes and 92% of business lines passed at the end of 2006. In Bell Aliant's territory, comprised of Atlantic Canada and rural Ontario and Québec, DSL high-speed Internet was available to over 70% of homes and over 80% of businesses at the end of 2006.

During 2006, we launched Sympatico Optimax, a premium high-speed service, delivering consistently fast Internet services with speeds up to 16 Mbps. We also upgraded our broadband access speed for DSL Basic customers in Ontario from 512 kilobits per second (Kbps) to 1 Mbps. We also offer a Basic Lite DSL service at 128 Kbps and an Ultra high-speed product for residential and SMB customers at 5 Mbps and 6 Mbps, respectively.

In 2006, Inukshuk Wireless Inc. (Inukshuk), a joint venture between Bell Canada and Rogers Communications Inc. (Rogers Communications), completed the initial phase of its new wireless broadband network covering five million households, representing 40% of the population in 20 urban centres across Canada. This next-generation Internet protocol (IP) wireless network, based on pre-WiMax standards, enables portable services allowing subscribers to access the Internet and other applications such as VoIP and video streaming. Inukshuk was launched in 2003 to provide wireless high-speed Internet access across Canada using spectrum in the 2.5 GHz range.

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, we no longer sell legacy data services other than to current customers.

Video Services

We are Canada's largest digital television provider, nationally broadcasting more than 500 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 television (iTV) services and the most extensive lineup of high definition (HD) channels in Canada. We currently distribute our video services to more than 1.8 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 and currently use four satellites, Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-interim. 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 2006, we had signed access agreements with 988 buildings and had provisioned 514 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 14,600 residential cable subscribers in the Montréal area, representing an approximate 28% 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 2007, 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 continued technical trials of our IPTV service in 2006. Bell Canada is currently providing limited service in both Montréal and Toronto. IPTV will offer increased interactivity to experience a variety of digital content on television.

Signal piracy continues to be a major issue facing all segments of the Canadian broadcasting industry. During 2006, 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 and maintenance services for third parties
- IT services provided by Bell Aliant.

OUR STRATEGIC PRIORITIES

We accelerated the transformation of the company in 2006, increasing our focus on execution to strengthen the operational foundations we have put in place over the last three years to drive a shift in our revenue mix towards growth services, reset our cost base and return to our core communications business. We also continued to strengthen all three strategic pillars — improving the customer experience, enhancing bandwidth and developing next-generation services — while sharpening our marketing fundamentals, which enabled us to step up to the competitive challenges of cable telephony more effectively.

The three pillars will continue to be critical in 2007, as will our efforts to improve our operational efficiency and productivity. We will also place a growing focus on enhancing the experience of our customers. It is how we will differentiate our business from the competition to build customer loyalty as we drive the profitable expansion of our growth services and slow the decline of our traditional voice and data businesses. However, service alone will not make us competitive. We must also continue to deliver products, services and solutions that make a difference for customers. We will continue to invest in developing growth services and enhancing the networks on which they run. In 2007, the majority of our capital spending will be in areas such as enhancing customer service, wireless operations and our advanced residential broadband network.

We have established five operational priorities for 2007 to achieve our objective of delivering consistent, reliable, high-quality communications services to customers efficiently and cost-effectively:

1. *Service quality* — We are determined to consistently meet or exceed customer expectations and enhance their overall experience with Bell Canada. This focus on improving the total client experience will help to differentiate us from our competitors and ensure long-term customer loyalty to the Bell brand and products.

2. *Broadband acceleration* — We will continue to invest in advanced network enhancements, such as the continued rollout of fibre-to-the-node (FTTN) technology, in order to expand the reach and speed of our DSL Internet service and to enable IPTV services.

3. *Wireless growth* — A key driver of growth and financial performance, the wireless business will be supported by an expanded array of handsets and devices, new products and features, expected growth in data usage, ongoing enhancements to broadband EVDO and overall network quality. We are focused on delivering continued improvements in average revenue per user (ARPU) and data growth, while acquiring our competitive share of net subscriber additions.

4. *Business sector profitability* — With a focus on ICT/ virtual chief information officer (VCIO) profitability, we will leverage the unique capabilities and scale in our Enterprise and SMB operations to take advantage of market opportunities and pull through connectivity revenues.

5. *Productivity improvements* — A core element of financial performance, productivity improvements have enabled Bell Canada's increased competitiveness in the marketplace. Cost discipline remains a centrepiece of our strategy, with productivity improvements expected to contribute to further improvement in earnings.

We intend to execute these priorities based on a foundation of market leadership behaviour and a balance between profitable growth and enhanced market share. With an increasingly cost-efficient structure, we believe that we are well positioned to leverage our network capabilities as well as our product and brand assets.

In 2006, we made significant progress in building upon each of our three key strategic pillars.

Enhancing customer experience by providing superior products and service that build loyalty

- Our multi-product household strategy continued to drive increased penetration of households subscribing to three or more products (a combination of local wireline, Internet, video, wireless and long distance services), reaching over 25% of total households in our Ontario and Québec footprint at the end of 2006, up from 22% at the end of 2005.
- At the end of 2006, approximately six million clients were enjoying the benefits of a single bill for their wire-line, Internet, video and/or wireless services (our One Bill program), compared with approximately two million at the end of 2005.
- As a result of our DSL hardening program, which has improved the performance of the network through software upgrades and installation of new hardware, we reduced major outages of our high-speed Internet service by 12% in 2006 compared with the previous year.
- We delivered improved service commitments and service levels in 2006 by reducing the total number of missed appointments for fixed wireline installations and repairs by approximately 3% and 15%, respectively, over the previous year.
- Our first call resolution rate in the Residential segment improved 2.1 percentage points in 2006 to approximately 81%.
- Sympatico, our Internet service provider to Residential and SMB customers, launched new desktop tools enabling customers to diagnose and correct configuration settings on their own or remotely through a call centre agent. These new tools are intended to drive self-service and reduce the average handling time of calls in our contact centres.
- As at the end of 2006, 93% of our Enterprise customers had adopted our online bill manager tool, a service that provides self-serve capabilities for business customers, enabling them to view, track and pay invoices online and to produce customized reports.
- Our Enterprise unit began the implementation of Service Desk, which will integrate connectivity and ICT customer care to create a single point of contact for the customer.

In 2007, we intend to continue improving service and enhancing the customer experience. In particular, we plan to:

- drive service quality so that it sets us apart in the market
- deliver improved service commitments and service levels by significantly reducing the number of missed appointments
- achieve distribution excellence by expanding our points of presence, refreshing existing stores, and enhancing existing channels such as 310-BELL and bell.ca
- expand our handset and device portfolios
- improve processes to simplify customer transactions.

Deliver abundant and reliable bandwidth to enable next-generation services

- We carried on with our rollout of FTTN by deploying another 1,564 neighbourhood nodes in 2006, raising the total number of nodes deployed to 3,612. In total, we currently expect to deploy approximately 11,000 to 12,000 nodes by 2011 for a total cost of approximately $1.2 billion, of which approximately $400 million has been spent as of the end of 2006.
- We continued to invest in our high-speed EVDO mobile data network by expanding the footprint to a number of cities and towns in Ontario, Québec, British Columbia and Alberta, bringing coverage to 55% of the Canadian population.
- We launched Sympatico Optimax, a high-speed Internet service that leverages the latest fibre optic technology, across significant parts of Toronto and Montréal. The service offers an Internet connection that delivers consistently fast Internet service, with speeds of up to 16 Mbps.
- Inukshuk, our joint venture with Rogers Communications, completed the initial phase of its new wireless broadband network that reaches five million households representing 40% of the population in 20 urban centres across Canada. This next-generation IP wireless network enables portable services allowing subscribers to access the Internet and other applications such as VoIP and video streaming.

In 2007, we intend to continue to expand the reach and speed of DSL service through our FTTN rollout, which will enable speeds of up to 26 Mbps. In the future, as consumer demand for bandwidth-intensive applications increases, we believe that FTTN bandwidth speeds can be increased to more than 40 Mbps through techniques such as shortening very high data rate DSL (VDSL) loop lengths and bonding twisted-pair copper telephone lines. At the same time, the Inukshuk fixed wireless broadband access network footprint will continue to be expanded. We also plan to complete implementation of the EVDO across our remaining wireless coverage areas.

Create next-generation services to drive ongoing profitable growth

- Bell Mobility launched a number of new services designed to drive data growth, including:
  - Groove Client, a music download service
  - a music video ringtones service that allows customers to listen to and/or watch digital music videos directly on their wireless phone
  - various video clip services featuring exclusive NHL hockey game highlights, MTV video highlights and images, and news and business reports from CTV News and Report on Business Television (ROBTv).
- Bell ExpressVu continued to build on its expansive retail offering of leading HD services with the launch of 12 new HD channels during the year. HD television, with its high-resolution images and theatre-quality sound, provides a viewing experience that is richer and more visually captivating than standard television. In addition, our video unit enhanced its lineup of iTV programming, providing the best interactive and on-demand news, weather and sports experience.
- Sympatico, our Internet service provider to Residential and SMB customers, started marketing several new products and service in 2006, including:
  - an enhanced version of its MSN Music Store, which offers customers safe and secure pay-per-download of high-quality music tracks via credit card payment
  - 'Personal Vault', a comprehensive online storage solution that is available exclusively from Bell Canada to backup, access and share content such as digital photos, financial records, music and video files
  - Canada's first subscription-based fraud protection service
  - Sympatico Unplugged, a high-speed portable Internet access product that offers speeds comparable to current residential and SMB offerings.
- Our Enterprise unit expanded its service offering in 2006 with applications such as IP audio conferencing and an enhanced IP virtual private network (IP VPN) product with global capabilities and advanced customer reporting functionality.

- Our SMB unit introduced several new products this year, including:
  - Business Internet Unplugged, a portable wireless DSL service
  - Managed IP, an IP Private Branch Exchange (IP PBX) monitoring, management and maintenance service.

In 2007, our objective is to drive the introduction of new products and services that balance innovation with profitability and that are brought to market more quickly. We plan to introduce EVDO-enabled data applications and other services to our wireless customers in order to deliver continued improvements in ARPU and data growth, as well as expand our residential broadband services to help customers manage information needs in their homes by leveraging our Sympatico-MSN portal. In our video unit, we intend to drive growth by investing in new growth areas, such as IPTV and HD programming, in our goal of becoming 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 network-supported applications and services in the financial services and federal, provincial and large municipal government sectors, as well as by concentrating on key customers in the retail, distribution and manufacturing sectors. We will also strengthen our capabilities in data and network security and business resilience. The overall objective within our SMB unit is to drive greater profitability through stronger organic growth with its refined VCIO strategy and the expansion of existing value-added services that build on the strengths of recent business acquisitions, as well as sale force and mid-market customer realignment.

TRANSFORMING OUR COST STRUCTURE

Overall, our various cost-reduction initiatives resulted in savings of $724 million in 2006, which brought the total amount of cost savings since 2004 to approximately $1.6 billion. Cost savings this year were realized primarily through process improvements in our business units and our supply chain transformation program, which contributed to maintaining Bell Canada's EBITDA(1) margin stable year-over-year.

Cost reductions from efficiency-related process improvements amounted to $341 million in 2006 and were driven primarily by:

- a reduction in the number of invoices printed and mailed to our Residential customers under the One Bill initiative
- more efficient contact centre operations, resulting in lower call volumes
- a reduction in the number of missed commitments for fixed wireline installations and repairs
- workforce reductions stemming from greater use of outsourcing and other productivity initiatives.

With respect to our workforce reduction program for 2006, our original plan called for 3,000 to 4,000 employee departures. In total, over 3,300 employee departures took place. However, this was offset by approximately 550 positions which were added in the year in support of our revenue growth and service quality initiatives. As a result, net employee departures totalled approximately 2,750 in the year.

Supply transformation savings of $383 million in 2006 were realized from:

- increased controls over discretionary spending
- reduced spending on IT services
- outsourcing of selected contact centre call volumes
- renegotiated contracts resulting in rate reductions and vendor rebates for wireless handsets, wireline data and voice equipment, and Internet portal services that we resell to our customers.

Operating Highlights

Our results for 2006 showed step-by-step progress in operational execution as underlying business trends began to exhibit signs of improvement. We intensified our focus on generating profitable recurring service revenue streams, while continuing to drive productivity improvements and cost efficiencies throughout the organization. Our growth services portfolio, which grew by about 11% this year, now represents a majority of Bell Canada's revenues, accounting for 51% of the total at the end of 2006. This was enabled by a significant improvement in wireless, video and Internet ARPU, as well as by increased sales of ICT solutions. As expected, local line losses in 2006 increased year over year as a result of the expanded competitive presence of lower-priced cable telephony service offerings in our markets. Our focus on profitable and disciplined subscriber growth, coupled with cost savings of more than $700 million and a reduced emphasis on low-margin equipment sales, allowed us to maintain stable EBITDA margins at Bell Canada year over year, despite the erosion of our legacy wireline business. Higher EBITDA, as well as capital spending efficiency, improved free cash flow(2) in 2006.

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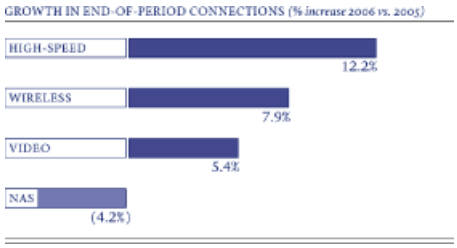
(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. See Non-GAAP Financial Measures — EBITDA *in this MD&A for more details including a reconciliation to the most comparable GAAP financial measure.*

(2) Free cash flow is a non-GAAP financial measure. See Non-GAAP Financial Measures — Free cash flow *in this MD&A for more details including a reconciliation to the most comparable GAAP financial measure.*

We also made steady progress in the area of customer service this year by resolving customer issues more promptly, enhancing the performance of our high-speed Internet network and improving service for wireline installations and repairs, all of which contributed to a higher level of customer satisfaction.

CUSTOMER CONNECTIONS

(in thousands)	NET ACTIVATIONS **2006**	TOTAL CONNECTIONS DECEMBER 31, **2006**
NAS	**(525)**	**12,056**
High-speed Internet	**267**	**2,462**
Wireless	**432**	**5,873**
Video	**93**	**1,820**



NAS

NAS in service declined by 525,000 in 2006 or 4.2%, representing a higher rate of decline than the 2.5% reported in 2005. The accelerated rate of erosion in the number of local access lines was due primarily to the competitive entry in 2005 of cable operators with lower-priced cable telephony services to our Québec and Ontario markets. Increased customer winbacks and higher wholesale demand for access lines in Western Canada lessened the decline.

High-Speed Internet

We added 267,000 new net high-speed Internet customers in 2006, increasing our base by 12.2% to 2,462,000. The net activations achieved in 2006 were lower than the 387,000 new subscribers acquired in 2005. The year-over-year decline in new subscriber additions was due mainly to the fact that net activations in 2005 were fuelled by the growth of our Basic Lite products and extensive footprint expansion.

Wireless

Our wireless subscriber base grew by 432,000 in 2006 to 5,873,000, representing a 7.9% increase compared to the previous year. While new subscriber activations were lower than the 516,000 achieved in 2005, higher revenue-generating postpaid subscribers accounted for 71% of the total net activations in 2006, up from 56% in 2005, due to significantly improved customer retention. Although we experienced higher prepaid churn during the year, our overall churn rate improved 0.1 percentage points, year-over-year, to 1.5%, due to lower postpaid churn.

Video

In 2006, we activated service for 93,000 new net video customers, down from 224,000 in 2005, to end the year with 1,820,000 subscribers. This result represents a 5.4% increase in our subscriber base over the previous year. The lower number of net activations can be attributed to a slight increase in our churn rate from 0.9% in 2005 to 1.0% in 2006, fewer sales in our retail channels compared with the previous year, and our increased focus on profitable growth. Net activations in 2005 also reflected the acquisition of Cable VDN, which added an incremental 12,500 customers to our video subscriber base.

LABOUR SETTLEMENT

On May 15, 2006, we reached an agreement with the Communications, Energy and Paperworkers Union of Canada (CEP) on pay equity that benefits 4,765 current and former Bell Canada employees, mostly operators. The settlement covers Bell Canada employees represented by the CEP in positions occupied primarily by women. The settlement included lump sum payments and pension adjustments worth approximately $104 million. The cash portion of the settlement (approximately $66 million) is reflected on the cash flow statement within cash flows from operating activities (operating assets and liabilities). The full amount of the cash portion of the settlement was accrued in previous years.

EXPERTECH NETWORK INSTALLATION

The collective agreements between the CEP and Expertech Network Installation Inc. (Expertech) representing approximately 160 clerical and 1,300 craft and services employees have both expired on November 30, 2006. The parties have been in negotiations since November 2006. A first offer by Expertech was rejected by both bargaining units' employees on December 20, 2006.

On February 26, 2007, the craft and services employees rejected Expertech's final offer at 64.5% whereas its clerical employees accepted the offer at 78.3%. Expertech's craft and services employees will only obtain their right to strike if and once the CEP gives 72 hour notice to Expertech indicating the date after which a strike will occur.

As a result of this vote, Expertech declared it was unable to restructure its operations and announced the wind-down of its operations. Bell Canada announced that it would work with Expertech toward an orderly and timely wind-down of its activities and would transfer its work to many local suppliers in Québec and Ontario.

On March 5, 2007, the CEP and Expertech announced that an agreement had been reached on some refinements to Expertech's final offer that, if accepted by union members, would allow Expertech to avoid closure. This offer has been put to a vote by the craft and services employees. The results will be announced on March 19, 2007.

As part of the bargaining process, the CEP filed, in December 2006, a single employer and a sale of business application before the Canada Industrial Relations Board (CIRB) against Bell Canada and Expertech. Hearings are scheduled in May and June 2007. Should the CEP be successful with these applications, Bell Canada could be bound by the collective agreements now covering Expertech's employees.

An arbitration decision was received by Expertech in December 2006 under which it was ordered to make the Bell Canada 2004 Voluntary Early Retirement (VER) program available to all employees covered by the craft and services collective agreement.

Enhancing Shareholder Returns

On July 10, 2006, BCE Inc. distributed approximately 64,628,000 units of Bell Aliant, representing an approximate 28.8% interest in Bell Aliant on a fully-diluted basis, to all its common shareholders on a pro-rata basis and concurrently reduced the number of its common shares outstanding by approximately 8% through a share consolidation.

On December 12, 2006, BCE Inc. announced, subject to being declared by the board of directors, an 11%, or $0.14 per share, increase in its annualized common share dividend.

BCE Inc. also announced plans to renew its share buy-back program for another twelve-month period to purchase for cancellation up to 40 million common shares through a normal course issuer bid (NCIB), representing approximately 5% of its outstanding common shares for an estimated value in excess of $1 billion. The company received acceptance from the Toronto Stock Exchange (TSX) on February 6, 2007 of its notice of intention to make a NCIB. Purchase of the shares will be carried through the TSX and/or New York Stock Exchange and will be made in accordance with the requirements of those exchanges. Purchases of common shares could be made from time to time, at market prices, during the period starting February 9, 2007 and ending no later than February 8, 2008. Pursuant to the company's previous NCIB, which began on February 3, 2006 and expired on February 2, 2007, BCE Inc. purchased and cancelled a total of 45 million common shares for a total cash outlay of $1,241 million, representing an average purchase price of approximately $27.50 per share.

In line with our corporate simplification program, we completed a number of important steps during the year to reshape the company's asset portfolio and bring greater focus to our communications operations. In addition to selling our remaining interest in CGI Group Inc. (CGI) and reducing our interest in CTVglobemedia to 15%, we created Bell Aliant, announced the sale of Telesat and began the process of rationalizing BCE Inc.'s holding company structure. As a result of these strategic initiatives and others that we have completed over the last few years, we have simplified our corporate organization, improved the revenue mix between growth and legacy products and services, and strengthened our operational capacity.

Selected Annual and Quarterly Information

This section shows selected financial and operational data.

ANNUAL FINANCIAL INFORMATION

The following tables show selected consolidated financial data, prepared in accordance with Canadian GAAP, for each year from 2002 to 2006. We discuss the factors that caused our results to vary over the past two years throughout this MD&A.

	2006	2005	2004	2003	2002
Operations					
Operating revenues	**17,713**	17,605	17,009	16,752	17,114
Operating expenses	**(10,384)**	(10,371)	(9,895)	(9,704)	(10,009)
EBITDA	**7,329**	7,234	7,114	7,048	7,105
Amortization expense	**(3,129)**	(3,061)	(3,000)	(3,001)	(2,932)
Net benefit plans (cost) credit	**(513)**	(359)	(241)	(168)	36
Restructuring and other items	**(355)**	(55)	(1,219)	(14)	(768)
Operating income	**3,332**	3,759	2,654	3,865	3,441
Other (expense) income	**(176)**	28	439	214	3,139
Impairment charge	**—**	—	—	—	(765)
Interest expense	**(952)**	(949)	(961)	(1,064)	(1,080)
Pre-tax earnings from continuing operations	**2,204**	2,838	2,132	3,015	4,735
Income taxes	**(85)**	(803)	(605)	(1,079)	(1,551)
Non-controlling interest	**(228)**	(201)	(132)	(166)	(860)
Earnings from continuing operations	**1,891**	1,834	1,395	1,770	2,324
Discontinued operations	**116**	127	129	45	83
Net earnings before extraordinary gain	**2,007**	1,961	1,524	1,815	2,407
Extraordinary gain	**—**	—	69	—	—
Net earnings	**2,007**	1,961	1,593	1,815	2,407
Dividends on preferred shares	**(70)**	(70)	(70)	(64)	(59)
Premium on redemption of preferred shares	**—**	—	—	(7)	(6)
Net earnings applicable to common shares	**1,937**	1,891	1,523	1,744	2,342
Included in net earnings:					
Net gains on investments					
Continuing operations	**419**	33	410	(81)	1,351
Discontinued operations	**106**	(6)	11	83	96
Restructuring and other items	**(222)**	(37)	(770)	3	(441)
Impairment charge	**—**	—	—	—	(26)
Cost incurred to form Bell Aliant	**(42)**	—	—	—	—
Net earnings per common share:					
Continuing operations — basic	**2.12**	1.90	1.44	1.85	2.66
Continuing operations — diluted	**2.12**	1.90	1.44	1.84	2.62
Net earnings — basic	**2.25**	2.04	1.65	1.90	2.66
Net earnings — diluted	**2.25**	2.04	1.65	1.89	2.62
Ratios					
EBITDA margin (%)	**41.4%**	41.1%	41.8%	42.1%	41.5%
EBITDA to interest ratio (times)	**7.70**	7.62	7.40	6.62	6.58
Operating margin (%)	**18.8%**	21.4%	15.6%	23.1%	20.1%
ROE (%)	**15.7%**	14.8%	12.5%	15.2%	17.8%

	2006	2005	2004	2003	2002
Balance Sheet					
Total assets	**36,957**	40,482	39,133	39,846	39,388
Long-term debt (including current portion)	**12,817**	12,925	12,312	13,593	14,220
Net debt	**12,272**	12,667	12,175	13,115	14,702
Total capitalization	**27,819**	30,286	29,107	30,076	30,880
Preferred shares	**1,670**	1,670	1,670	1,670	1,510
Common shareholders' equity	**11,697**	13,051	12,354	11,895	11,090
Ratios					
Net debt to total capitalization (%)	**44.1%**	41.8%	41.8%	43.6%	47.6%
Net debt to EBITDA (times)	**1.67**	1.75	1.71	1.86	2.07
Total debt to total assets (times)	**0.35**	0.32	0.32	0.34	0.38
Long-term debt to equity (times)	**0.96**	0.88	0.88	1.00	1.13
Cash Flows					
Cash flows from operating activities	**5,389**	5,337	5,268	5,717	4,545
Cash flows from investing activities	**(3,701)**	(3,762)	(3,551)	(2,797)	(6,878)
Capital expenditures	**(3,133)**	(3,357)	(3,272)	(3,052)	(3,644)
Business acquisitions	**(71)**	(228)	(1,118)	(54)	(6,432)
Business dispositions	**—**	—	2	10	3,166
Bell Aliant	**(255)**	—	—	—	—
Other investing activities	**(2)**	39	183	167	35
Cash flows from financing activities	**(3,639)**	(1,613)	(2,571)	(2,704)	3,402
Repurchase of common shares	**(1,241)**	—	—	—	—
Net issuance of equity instruments	**29**	25	32	172	2,819
Net (repayment) issuance of debt instruments	**(432)**	(47)	(1,140)	(1,541)	2,047
Financing activities of subsidiaries with third parties	**(292)**	(77)	(17)	(29)	91
Cash dividends paid on common shares	**(1,169)**	(1,195)	(1,108)	(1,029)	(999)
Cash dividends paid on preferred shares	**(84)**	(86)	(85)	(61)	(43)
Cash dividends paid by subsidiaries to non-controlling interest	**(293)**	(169)	(179)	(172)	(468)
Cash provided by (used in) discontinued operations	**2,087**	103	512	200	(1,332)
Ratios					
Free cash flow	**708**	569	807	1,570	(574)
Capital intensity (%)	**17.7%**	19.1%	19.2%	18.2%	21.3%
Cash flow per share (dollars)	**2.62**	2.14	2.16	2.90	1.06
Cash flow yield (%)	**7.4%**	6.8%	7.2%	9.7%	1.6%
Share Information					
Average number of common shares (millions)	**861.4**	926.8	924.6	920.3	847.9
Common shares outstanding at end of year (millions)	**807.6**	927.3	925.9	924.0	915.9
Market capitalization	**25,359**	25,844	26,777	26,704	26,103
Dividends declared per common share (dollars)	**1.32**	1.32	1.20	1.20	1.20
Book value per share (dollars)	**14.48**	14.07	13.34	12.87	12.11
Total dividends declared on common shares	**(1,132)**	(1,222)	(1,110)	(1,105)	(1,031)
Total dividends declared on preferred shares	**(70)**	(70)	(70)	(64)	(59)
Market price per common share (dollars)					
High	**32.92**	32.95	30.00	32.35	36.87
Low	**25.56**	26.60	25.75	26.60	23.00
Close	**31.40**	27.87	28.92	28.90	28.50
Ratios					
Common dividend yield (%)	**4.6%**	4.6%	4.1%	3.9%	3.8%
Common dividend payout ratio (%)	**60.4%**	63.2%	72.8%	59.0%	42.7%
Price to earnings ratio (times)	**13.96**	13.66	17.53	15.21	10.71
Price to book ratio (times)	**2.17**	1.98	2.17	2.25	2.35
Price to cash flow ratio (times)	**11.98**	13.02	13.39	9.97	26.89
Other Data					
Number of employees (thousands) (1)	**54**	56	51	54	57

(1) *The number of employees for 2004 excludes virtually all employees who left under the voluntary departure program of 2004.*

ANNUAL OPERATIONAL INFORMATION

The following table shows selected data on operations from 2004 to 2006.

	2006	2005	2004
Wireline			
Local network access services (thousands)	**12,056**	12,581	12,905
Long distance conversation minutes (millions)	**18,222**	18,243	18,070
Long distance average revenue per minute (cents)	**9.3**	10.3	11.7
Data			
High-speed Internet net activations (thousands)	**267**	387	350
High-speed Internet subscribers (thousands)	**2,462**	2,195	1,808
Dial-up Internet subscribers (thousands)	**511**	586	743
Wireless			
Cellular and PCS net activations (thousands)	**432**	516	513
Cellular and PCS subscribers (thousands)	**5,873**	5,441	4,925
Average revenue per unit ($/month)	**51**	49	49
Churn (%) (average per month)	**1.5%**	1.6%	1.3%
Cost of acquisition ($/subscriber)	**419**	406	411
Paging subscribers (thousands)	**281**	347	427
Video			
Video net activations (thousands)	**93**	224	116
Video subscribers (thousands)	**1,820**	1,727	1,503
Average revenue per subscriber ($/month)	**54**	50	49
Churn (%) (average per month)	**1.0%**	0.9%	1.0%

QUARTERLY FINANCIAL INFORMATION

The following table shows selected consolidated financial data by quarter for 2006 and 2005. 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.

	2006					2005				
	YEAR	Q4	Q3	Q2	Q1	YEAR	Q4	Q3	Q2	Q1
Operating revenues	**17,713**	**4,547**	**4,422**	**4,388**	**4,356**	17,605	4,539	4,408	4,368	4,290
EBITDA	**7,329**	**1,773**	**1,840**	**1,875**	**1,841**	7,234	1,740	1,817	1,856	1,821
Amortization expense	**(3,129)**	**(797)**	**(786)**	**(790)**	**(756)**	(3,061)	(776)	(774)	(763)	(748)
Net benefit plans cost	**(513)**	**(125)**	**(118)**	**(134)**	**(136)**	(359)	(59)	(103)	(99)	(98)
Restructuring and other items	**(355)**	**(91)**	**(126)**	**(50)**	**(88)**	(55)	(24)	(31)	(5)	5
Operating income	**3,332**	**760**	**810**	**901**	**861**	3,759	881	909	989	980
Earnings from continuing operations	**1,891**	**717**	**324**	**444**	**406**	1,834	390	444	541	459
Discontinued operations	**116**	**—**	**(22)**	**50**	**88**	127	40	15	40	32
Net earnings	**2,007**	**717**	**302**	**494**	**494**	1,961	430	459	581	491
Net earnings applicable to common shares	**1,937**	**699**	**285**	**476**	**477**	1,891	413	441	563	474
Included in net earnings:										
Net gains on investments										
Continuing operations	**419**	**410**	**8**	**—**	**1**	33	—	—	33	—
Discontinued operations	**106**	**2**	**(11)**	**35**	**80**	(6)	—	—	(5)	(1)
Restructuring and other items	**(222)**	**(66)**	**(71)**	**(27)**	**(58)**	(37)	(16)	(21)	(3)	3
Cost incurred to form Bell Aliant	**(42)**	**—**	**(28)**	**(14)**	**—**	—	—	—	—	—
Net earnings per common share										
Continuing operations — basic	**2.12**	**0.84**	**0.39**	**0.47**	**0.42**	1.90	0.39	0.46	0.57	0.48
Continuing operations — diluted	**2.12**	**0.84**	**0.39**	**0.47**	**0.42**	1.90	0.39	0.46	0.57	0.48
Net earnings — basic	**2.25**	**0.84**	**0.36**	**0.53**	**0.52**	2.04	0.44	0.48	0.61	0.51
Net earnings — diluted	**2.25**	**0.84**	**0.36**	**0.53**	**0.52**	2.04	0.44	0.48	0.61	0.51
Average number of common shares outstanding (millions)	**861.4**	**811.6**	**818.8**	**896.4**	**920.5**	926.8	927.3	927.0	926.6	926.2

Financial Results Analysis

This section provides detailed information and analysis about our performance in 2006 compared with 2005. It focuses on our consolidated operating results and provides financial information for each of our operating segments.

CONSOLIDATED ANALYSIS

	2006	2005	% CHANGE
Operating revenues	**17,713**	17,605	0.6%
Operating expenses	**(10,384)**	(10,371)	(0.1%)
EBITDA	**7,329**	7,234	1.3%
Amortization expense	**(3,129)**	(3,061)	(2.2%)
Net benefit plans cost	**(513)**	(359)	(42.9%)
Restructuring and other items	**(355)**	(55)	N/M
Operating income	**3,332**	3,759	(11.4%)
Other (expense) income	**(176)**	28	N/M
Interest expense	**(952)**	(949)	(0.3%)
Pre-tax earnings from continuing operations	**2,204**	2,838	(22.3%)
Income taxes	**(85)**	(803)	89.4%
Non-controlling interest	**(228)**	(201)	(13.4%)
Earnings from continuing operations	**1,891**	1,834	3.1%
Discontinued operations	**116**	127	(8.7%)
Net earnings	**2,007**	1,961	2.3%
Dividends on preferred shares	**(70)**	(70)	—
Net earnings applicable to common shares	**1,937**	1,891	2.4%
EPS	**2.25**	2.04	10.3%

N/M: not meaningful

Operating Revenues



Total operating revenues at BCE increased to $17,713 million in 2006, 0.6% higher than 2005. This reflected higher revenues at Bell Canada, partially offset by lower revenues in our Other BCE segment.

Revenues at Bell Canada increased 0.7% year over year to $17,348 million. This was driven primarily by:

- higher ARPU and an increased number of wireless, high-speed Internet and video customers in our Residential segment
- solid wireless and ICT growth in our Business segment
- increased revenues from Internet, data and IT services at Bell Aliant.

Our growth services portfolio (comprised of wireless, video, high-speed Internet and ICT solutions), which grew by about 11% this year, now represents a majority of Bell Canada's revenues, accounting for 51% of the total at the end of 2006.

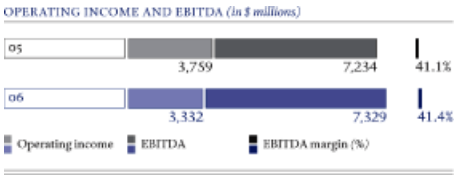
The positive contribution of these factors to our top-line results more than compensated for the continued erosion of traditional wireline services revenues from higher residential local line losses and market pricing pressures in our Business segment, softer wholesale revenues, and the impact of regulatory decisions. In total, these CRTC-mandated rulings adversely affected Bell Canada's revenues in 2006 by approximately $61 million, reflecting a reduction in local rates associated with the Price Caps deferral account, a reduction in the rates we charge for switching and aggregation services to long distance service providers, and a reduction in the fees we charge to competitive local service providers for co-location in Bell Canada's switching offices. In addition, our results for 2005 included revenues from a number of non-recurring sales which negatively affected revenue growth in 2006. These items included the sale of customer contracts in our Enterprise unit related to legacy point-of-sale systems, fibre and access capacity sales in our Wholesale unit, the sale of U.S. conferencing solutions contracts in our SMB unit, the early termination of a cross-border facilities contract and the recognition of deferred revenues related to unused prepaid minutes.

2007 Outlook

We are targeting continued revenue growth at Bell Canada in 2007, as increases in revenue from our growth services should more than offset further erosion of our legacy wireline business. Growth services should represent a larger majority of Bell Canada revenues by the end of the year. Revenue growth is expected to be fuelled by further expansion of our wireless, video and high-speed Internet subscriber bases in combination with higher ARPU for each of these services, as well as by growth in our ICT and VCIO services in our Enterprise and SMB units. We also intend to continue to de-emphasize onetime hardware and equipment sales within our Business segment in favour of recurring revenue streams from managed service contracts. Although we expect a negative impact on revenues from NAS erosion and the continuing migration of traffic to IP-based networks and services, we anticipate an improvement in the year-over-year decline in legacy wireline revenues, mainly as a result of the expected stabilization in our residential local lines losses and strategic pricing initiatives in our Business segment.

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 for BCE was $3,332 million in 2006, down 11.4% from $3,759 million in 2005. Similarly, Bell Canada's operating income decreased 10.7% in 2006 to $3,353 million from $3,755 million in the previous year. The year-over-year decreases were due largely to restructuring and other items associated with employee departures at Bell Canada, the relocation of employees and closing of real estate facilities related to a reduced workforce, transaction costs from the formation of Bell Aliant, and costs incurred under a proposal to reorganize the company into an income trust and to simplify the corporate structure.

Operating income before restructuring and other items (1) in 2006 was $3,687 million and $3,685 million, respectively, for BCE and Bell Canada, representing decreases of 3.3% over the previous year. The year over year reduction in operating income before restructuring and other items at both BCE and Bell Canada in 2006 resulted primarily from:

- continued erosion of our high-margin residential NAS wireline customer base
- operating margin pressure from the transformation of our product mix toward growth services
- higher wireless customer retention costs and marketing expenses
- higher operating costs associated with an increased volume of connection and service requests
- higher operating expenses from various business acquisitions made over the past year
- increased capital taxes
- higher net benefit plans cost and amortization expense.

These factors were partly offset by:

- increased cost savings from supply chain and process improvement initiatives
- lower total wireless and video subscriber acquisition costs
- lower labour costs resulting mainly from employee workforce reductions and outsourcing
- the non-recurrence of costs associated with restoring service levels in 2005 following resolution of a labour dispute with technicians in Ontario
- higher operating revenues at Bell Canada.

See *Segmented Analysis* for a discussion of operating income on a segmented basis.

EBITDA

EBITDA for BCE increased by 1.3% in 2006 to $7,329 million from $7,234 million in 2005, reflecting improved performance at Bell Canada partly offset by lower EBITDA at Telesat due to special compensation costs related to executive management changes and non-recurring revenues generated in 2005 from the sale of network services.

EBITDA at Bell Canada increased to $7,289 million, up 1.4% compared to $7,187 million in 2005. Higher EBITDA in 2006 reflected improved performance in our Business, Bell Aliant, and Other Bell Canada segments, offset by a slight decrease in our Residential segment.

In line with our objective for 2006 to keep EBITDA margins stable year over year as we continued to transform the company into an IP-based growth services company, we increased EBITDA margin at both BCE and Bell Canada by 0.3 percentage points to 41.4% and 42.0%, respectively. The improvement in margins reflected higher revenues and a significant step-up in savings from our cost reduction program, which more than offset the negative impact of the loss of high-margin legacy voice and data revenues across all our segments. Lower labour costs achieved through workforce reductions and other productivity initiatives such as the outsourcing of call centre functions, resolution of residual service issues related to a labour dispute with our technicians in Ontario last year, and lower subscriber acquisition costs in our residential growth services also contributed towards maintaining relatively stable EBITDA margins year over year. These lower costs were partly offset by a number of cost increases during the year, including higher wireless customer retention costs and marketing expenses, higher capital taxes, and higher operating expenses from various business acquisitions made in 2006.

Wireless EBITDA for 2006 increased by 17.4% to $1,535 million from $1,307 million in the previous year, driven primarily by revenue growth of 13.2% and reduced call centre costs. These factors contributed to wireless EBITDA margin of 42.8% for the year, representing a 1.6 percentage point improvement over 2005

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(1) Operating income before restructuring and other items is a non-GAAP financial measure. See Non-GAAP Financial Measures — Operating income before restructuring and other items *in this MD&A for more details including a reconciliation to the most comparable GAAP financial measure.*

when customer service issues related to our billing system conversion had a negative impact on our financial results, particularly during the first three months of the year. The year-over-year EBITDA margin improvement was partly offset by higher customer retention and handset upgrade costs, an increase in total subscriber acquisition costs and the recognition in 2005 of deferred revenues related to unused prepaid minutes.

Wireless cost of acquisition (COA) increased 3.2% to $419 per gross activation in 2006 from $406 per gross activation in 2005. Higher COA was due primarily to increased marketing expenses associated with our Frank & Gordon campaign and the market repositioning of Solo Mobile, higher sales commissions from a focus on acquiring higher-value subscribers, as well as to a lower number of total gross activations year over year. These impacts were largely offset by decreased handset subsidies stemming from volume rebates and rate reductions received from handset manufacturers, pricing discipline despite intense competition, and a higher number of prepaid gross activations year over year.

Video EBITDA increased significantly in 2006 to $181 million from $45 million in 2005. The year-over-year improvement reflected strong double-digit revenue growth brought about by the combined impact of a $4 increase in monthly ARPU and a 5.4% increase in the total number of customers, as well as significantly lower subscriber acquisition costs resulting from fewer gross activations and the favourable impact of a higher number of STB rentals. Lower call centre expenses arising from reduced average call handling times and outsourcing also contributed to the improvement in EBITDA.

2007 Outlook

We are targeting an increase in EBITDA at Bell Canada for 2007, despite the ongoing shift in our revenue mix from traditional wireline services to growth services. The increase is expected to result from improving gross margins for our growth services, lower year-over-year declines in local and access, long distance and legacy data revenues, as well as to ongoing cost savings from new supply chain and procurement initiatives, productivity improvements, and organizational transformation. We expect to reach an important inflection point in our business mix transition by the end of 2007 when the incremental EBITDA contribution from wireless, video, broadband and ICT services should begin to outpace the slowing decline in our legacy business.

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.

Amortization expense of $3,129 million in 2006 represents an increase of $68 million or 2.2% compared to $3,061 million in 2005. 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 capital spending that continues to be higher than asset retirements, partly offset by a slight increase in the average life of 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 expect 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.*
- *new actuarial valuations of which one was completed in June 2006 for our defined benefit pension plans (see* Liquidity *within the* Financial and Capital Management *section).*

The net benefit plans cost of $513 million in 2006 represents an increase of $154 million or 43% compared to $359 million in 2005. The increase resulted mainly from:

- *a reduction in the discount rate from 6.2% in 2005 to an average of 5.4% in 2006, which increased the cost of our pension plan liabilities and, therefore, net benefit plans cost*
- *a $44 million curtailment gain in 2005 associated with the phase-out, over three years, of a discretionary allowance program.*

Net benefit plans cost is expected to decrease in 2007, mainly as a result of improved returns on plan assets in 2006 and changes to benefit plans. This is partly offset by a further reduction in the discount rate from an average of 5.4% for 2006 to 5.3% for 2007 that results in an increase in our accrued benefit obligation under the pension plans.

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 workforce reduction initiatives and asset write-downs.

We recorded restructuring charges and other items of $355 million in 2006. These included:

- charges of $93 million related to restructuring initiatives for the involuntary departure of approximately 1,810 employees
- charges of $72 million for relocating employees and closing real estate facilities that are no longer needed because of the reduction in the workforce
- other charges of $190 million consisting mainly of costs related to the formation of Bell Aliant, costs we incurred for the Bell income trust initiative and the simplification of our corporate structure. The costs associated with the formation of Bell Aliant consisted mainly of investment banking, professional and consulting fees.

Other (Expense) Income

Other (expense) income includes (expense) income that we (incur) receive from activities that are not part of our main 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*
- *other miscellaneous income or expense.*

Other expense of $176 million in 2006 represented a decrease of $204 million compared to other income of $28 million in 2005. This decrease resulted mainly from:

- a $148 million charge for premium costs on early redemption of Bell Aliant debt, $122 million of which was recorded as a result of the formation of Bell Aliant
- a $39 million dilution gain in the second quarter of 2005 relating to our interest in TerreStar Networks Inc., a mobile satellite services company
- a $36 million loss as a result of our decision to exit a line of business
- a $26 million loss realized on the exercise of swaptions issued by Bell Aliant.

This was partly offset by a $9 million gain on the acquisition of Nortel Networks Corporation (Nortel) shares by the Bell Canada pension fund and a charge of $33 million in 2005 related to the tax loss monetization program between Bell Canada and Bell Canada International Inc. (BCI).

Interest Expense

Interest expense of $952 million in 2006 increased by $3 million or 0.3% compared to $949 million in 2005. This was a result of higher average debt levels offset by lower average interest expense from the refinancing of debt at lower rates.

Income Taxes

Income taxes of $85 million in 2006 decreased by $718 million or 89% compared to $803 million in 2005. This was due mainly to:

- the recognition of a future tax asset totalling $434 million in respect of approximately $2,341 million of previously unrecognized capital loss carryforwards. These tax losses have been recognized as a result of the pending sale of Telesat.
- lower pre-tax earnings
- the impact of the non-taxable portion of Bell Aliant's income
- favourable tax audit settlements in 2006 and other adjustments to our estimated future tax liability including reductions in income taxes resulting from the decrease in corporate federal income tax rates and the elimination of the large corporation tax stemming from the 2006 federal budget.

This decrease was partly offset by $99 million of savings in 2005 resulting from the loss monetization program between Bell Canada and BCI.

As a result, the effective tax rate decreased in 2006 to 3.9% compared to 28.3% in 2005.

Non-Controlling Interest

The non-controlling interest in the statements of operations reflects the percentage ownership of a subsidiary owned by others multiplied by the amount of the subsidiary's after-tax earnings.

Non-controlling interest of $228 million in 2006 increased by $27 million or 13.4% compared to $201 million in 2005. This was mainly due to our decreased ownership interest upon the formation of Bell Aliant, partly offset by the non-controlling interest in the premium costs incurred by Bell Aliant on the early redemption of long-term debt and by transaction costs associated with Bell Aliant.

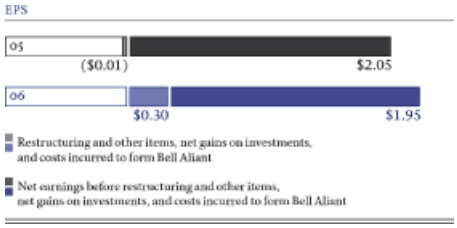
Discontinued Operations

On August 30, 2006, we reduced our interest in CTVglobemedia to 20% from 68.5%, as previously announced on December 2, 2005. In September 2006, CTVglobemedia completed its takeover bid for CHUM Limited (CHUM). As a result of the transaction our interest in CTVglobemedia was reduced to 15%. Our remaining investment in CTVglobemedia is accounted for using the cost method and is presented as a discontinued operation.

The net gain from discontinued operations of $116 million in 2006 relates to our gain on disposition of CGI of $79 million, a gain of $52 million realized on the return of capital from BCI, a $7 million gain on acquisition of our remaining CGI shares by the Bell Canada pension fund, and operating income at CTVglobemedia. This was partly offset by a write-down of $17 million on our remaining investment in CGI.

The net gain from discontinued operations of $127 million in 2005 relates mainly to our share of both CGI and CTVglobemedia's operating income.

Net Earnings and Earnings per Share (EPS)



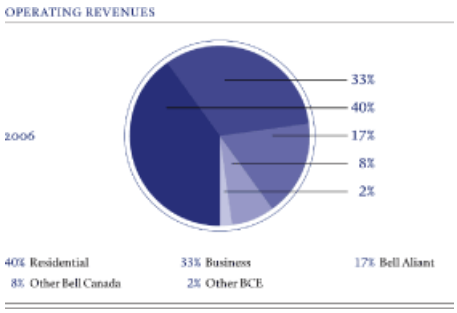
Net earnings applicable to common shares were $1,937 million, or $2.25 per common share, in 2006, 2.4% higher than net earnings of $1,891 million, or $2.04 per common share, in 2005. Included in net earnings this year was a charge of $222 million from restructuring and other items, net gains on investments of $525 million, and costs incurred to form Bell Aliant of $42 million, compared to a net charge of $10 million last year. Net gains on investments in 2006 included the recognition of a future tax asset of $434 million representing the tax-effected amount of approximately $2,341 million of previously unrecognized capital loss carryforwards that will be realized due to the anticipated gain on the sale of Telesat. Net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant(1) of $1,676 million, or $1.95 per common share, were down $225 million, or $0.10 per share. The decrease was a result of higher amortization expense, higher net benefit plans cost and discontinued operations, partly offset by improved EBITDA performance and the increase in EPS from the normal course issuer bid (NCIB) share repurchase program. The decrease was offset further by the favourable impact on EPS of the share consolidation associated with the distribution of a 28.8% interest in Bell Aliant to BCE Inc. common shareholders and by lower income tax expense.

SEGMENTED ANALYSIS

Starting in the third quarter of 2006, our segment reporting reflects the formation of Bell Aliant and it is reported as a separate segment. Since Bell Aliant includes the operations of Bell Canada's former regional wireline operations and Bell Nordiq, the results of our other segments have been restated to reflect the sale of these operations. Additionally, the results of our other segments have been restated to reflect the sale to Bell Canada of the Aliant wireless business and the DownEast Mobility Limited (DownEast) retail stores, which are now reported in our Residential and Business segments.

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(1) Net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant is a non-GAAP financial measure. See Non-GAAP Financial Measures — Net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant *in this MD&A for more details including a reconciliation to the most comparable GAAP financial measure.*



	2006	2005	% CHANGE
Operating revenues			
Residential	**7,099**	7,016	1.2%
Business	**6,057**	5,966	1.5%
Bell Aliant	**3,358**	3,320	1.1%
Other Bell Canada	**1,592**	1,651	(3.6%)
Inter-segment eliminations	**(758)**	(719)	(5.4%)
Bell Canada	**17,348**	17,234	0.7%
Other BCE	**535**	538	(0.6%)
Inter-segment eliminations	**(170)**	(167)	(1.8%)
Total operating revenues	**17,713**	17,605	0.6%

	2006	2005	% CHANGE
Operating income			
Residential	**1,649**	1,772	(6.9%)
Business	**811**	863	(6.0%)
Bell Aliant	**777**	768	1.2%
Other Bell Canada	**116**	352	(67.0%)
Bell Canada	**3,353**	3,755	(10.7%)
Other BCE	**(21)**	4	N/M
Total operating income	**3,332**	3,759	(11.4%)

N/M: Not meaningful

Residential Segment

Residential Revenues



Residential revenues increased 1.2% to $7,099 million in 2006, compared to $7,016 million in 2005. Wireless, video and data contributed 3.3%, 2.5% and 1.3%, respectively, to overall Residential revenue growth in 2006. The increase this year reflected a higher number of wireless, video and high-speed Internet subscribers combined with significantly higher ARPU across all these growth services. The revenue performance of our growth services was largely offset by negative contributions of 3.8% from local and access services, 1.9% from long distance and 0.2% from terminal sales and other revenues. Lower wireline (local and access and long distance) revenues were due to higher NAS losses in 2006 brought about by increased cable telephony competition, ongoing wireless long distance and VoIP substitution, the impact of CRTC-mandated local rate reductions, as well as continued aggressive price competition.

Wireline

Local and access, which represents the largest proportion of our Residential segment revenues, declined in 2006, due mainly to ongoing NAS erosion, CRTC-required price reductions for basic service and related SmartTouch value-added service features, and a decrease in wireline maintenance plan revenues. NAS decreased in 2006 primarily as a result of losses to cable companies and CLECs, wireline to wireless substitution, as well as continued growth in high-speed Internet access that reduces the need for second telephone lines. The annualized NAS erosion rate increased in 2006 as the major cable companies operating in our Ontario and Québec markets continued to expand their service footprints and to vigorously market low-priced cable telephony offerings through bundled offers with other services.

In line with NAS erosion, long distance revenues decreased in 2006 compared to the previous year, reflecting lower average revenue per minute (ARPM), a decrease in the total volume of conversation minutes, and lower prepaid calling card sales. However, prudent price increases, including an increase in our network access charge in the second quarter of 2006 from $2.95 per month to $4.50 per month, higher overseas and calling card per-minute rates, as well as increases in some plan fees has enabled us to moderate the loss of residential long distance revenues in 2006 and to slow down its annual rate of erosion. Lower ARPM reflected ongoing competition from non-traditional long distance providers, increased adoption of our Block of Time (BOT) minute plans, and a lower volume of higher-priced overseas minutes. Overall minutes in 2006 declined year over year, as usage gains stemming from our BOT plans

were more than offset by the impact of higher NAS erosion and by losses of domestic and overseas minutes to alternative 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 2006, mainly as a result of a higher average number of customers, price increases over the past year for certain services and features, a shift in the subscriber mix towards higher-value rate plans, and the increased number of Solo and Virgin Mobile customers, which have higher-than-average ARPU in our prepaid subscriber base. Higher data usage fuelled by the expansion of our high-speed EVDO mobile data network, increased adoption of 'Fuel Me' bundles, text messaging, mobile browsing and gaming, all of which have been facilitated by the availability of handsets with enhanced MP3 download and video streaming capabilities, also contributed to the improvement in Residential wireless revenues this year.

For further information about our wireless business, please see *Wireless* within our *Product Line Analysis*.

Data

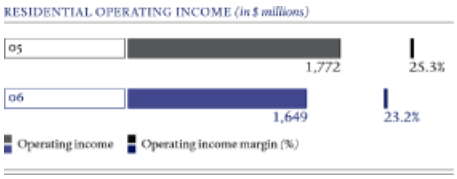
Higher Residential data revenues in 2006 reflected high-speed Internet subscriber growth and increased ARPU. The improvement in ARPU was driven by a number of price increases over the past year, a reduction in customer credits, a 26% increase in revenues from our Sympatico.MSN.ca web portal and higher subscriptions to value-added services such as security services and home networking. The year-over-year increase in residential data revenues was moderated by the impact of discounts from promotional offers on our Basic and High Speed Edition products that have been implemented to combat the intense competitive conditions in our Québec market. In the fourth quarter of 2006, we implemented usage thresholds on all new high-speed acquisition offers in Québec and Ontario, which should help to drive incremental revenue growth as new high-speed customers will be charged $1.50 per gigabyte (GB) above 30 GB of usage. Sympatico customers also generated approximately 168 million video streams in 2006, a five-fold increase compared to the previous year. The portal, which reaches approximately 87% of online Canadians, averaged 19.3 million unique visitors per month, reflecting an increase of 12% in 2006.

For further information about our data business, please see *Data* within our *Product Line Analysis*.

Video

See discussion under *Product Line Analysis.*

Residential Operating Income



Our Residential segment reported operating income of $1,649 million, down 6.9% or $123 million from the previous year. The decrease was due primarily to a higher rate of decline in our high-margin residential NAS wireline customer base, increased customer retention costs and advertising expenses in our wireless unit, as well as increased amortization expense and net benefit plans cost. These factors were moderated by higher revenues across all our growth services, a decrease in total video subscriber acquisition expenses, lower call centre costs driven largely by outsourcing of call volumes and an improvement in the first call resolution rate, as well as cost savings from initiatives such as One Bill and reducing missed customer appointments for wireline installations and repairs. The recovery from a labour dispute with technicians in Ontario that negatively impacted operating expenses in the fourth quarter of 2005 also helped to offset the decrease in operating income this year.

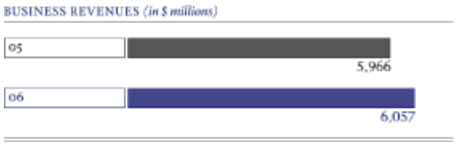
Residential 2007 Outlook

In 2007, we expect to benefit from a further decrease in contact centre costs, driven mostly by an improvement in the first-call resolution rate, outsourcing, various call reduction initiatives and an increase in our self-serve offer. This, along with increasing revenues from continued subscriber base growth in wireless, video, and high-speed Internet, is expected to moderate the adverse impact on Residential revenues of the ongoing erosion of our local and access and long distance businesses. We believe that we will experience a sustained level of competition in 2007 as cable operators maintain the intensity of their marketing efforts and further expand the footprint for their low-priced cable telephony offerings in our incumbent territories. However, the potential for local telephone deregulation in 2007 should provide

us with the ability to market in new ways. The quality and value of our video services, coupled with the strength of Bell Canada's multi-product offering, is expected to support our ability to compete effectively against the cable competitors across all products and services.

Business Segment

Business Revenues



Business segment revenues totalled $6,057 million in 2006, representing a 1.5% increase over the $5,966 million reported in 2005. Our SMB and Bell West units accounted for 0.8% and 1.9% of the total growth in Business segment revenues in 2006, offset partly by a negative contribution of 1.2% from our Enterprise unit. The year-over-year improvement can be attributed mainly to increased ICT and wireless revenues from SMB and Enterprise customers. Wireline access revenues also increased in 2006, reflecting stabilization in the rate of erosion in legacy connectivity services and the impact of pricing initiatives implemented by our Enterprise and SMB units. These positive factors were largely offset by declines in long distance and legacy data revenues as a result of ongoing competitive pricing pressures and continued migration of customers' voice and data traffic to our IP-based systems. In addition, the positive impact on revenues in 2005 of non-recurring sales of customer contracts related to legacy point-of-sale systems and our U.S. conferencing impacted overall Business segment revenue growth in 2006 when similar sales did not occur.

Enterprise

Enterprise revenues decreased in 2006 compared with 2005, mainly as a result of declines in legacy data services and long distance revenues stemming from competitive price reductions and the ongoing migration of our customers' voice and data traffic to IP-based systems. The positive impact on revenues in 2005 of the non-recurring sale of customer contracts related to legacy point-of-sales systems also adversely affected year-over-year growth. In line with our increased focus on profitable growth this year, we de-emphasized lower-margin hardware sales. Higher wireless revenues, as well as increased IP-based connectivity and ICT revenues, partly offset the year-over-year decrease in Enterprise revenues. ICT revenues grew by 3% in 2006, largely reflecting increased sales from the acquisition of small specialized service companies over the past year to enhance the breadth of our service offerings, and new contract wins primarily in the areas of security solutions and wireless data.

We continued to experience solid demand for IP-based network solutions, particularly for IP VPN services, as large Enterprise customers chose Bell Canada for their ICT needs. Our Enterprise unit had a number of significant multi-year contract wins and renewals in 2006 totalling approximately $2.5 billion in value, which included:

- Toronto-Dominion Bank Financial Group, to implement and manage a fully-outsourced IP-based contact centre solution that will support over 6,300 agents in 94 locations
- RBC Financial Group, to convert their 1,300 branch offices from a legacy frame relay data network to a consolidated IP-based multi protocol label switching (IP MPLS) network
- Desjardins Group, to provide ICT communications, payment and call centre services, as well as a technological evolution plan to deploy IP technology to its approximate 1,500 retail branch offices.

SMB

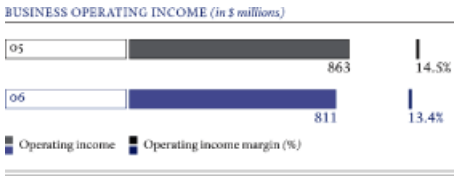
Revenues generated from SMB customers increased in 2006 as higher data, wireless and local and access revenues more than compensated for lower long distance and other revenues. Double-digit data revenue growth was the result of strong ICT sales driven by increased penetration of VAS and improved cross-selling opportunities made possible by companies acquired in the past few years to enhance our VCIO strategy, as well as continued demand for high-speed Internet access service connections. Although competition increased, total VAS/ VCIO revenues improved 24% in 2006. Local and access revenues increased this year, despite continued local line losses to alternative telephony providers, primarily as a result of the favourable impact of price increases for basic local access and the success of our customer retention initiatives. Long distance revenues decreased, owing mainly to lower minute volumes, higher local line losses, and the ongoing weakening of our pay-phone business resulting from wireless and Internet substitution. The positive impact of strategic product pricing helped to

moderate the year-over-year decline in long distance revenues. Lower other revenues can be attributed primarily to the sale of our U.S. conferencing solutions in the third quarter of 2005 and a decrease in legacy voice equipment sales.

Bell West

Bell West continued to grow its business in 2006 mainly as a result of higher wireless revenues brought about by improved wireless subscriber and ARPU growth, increased data revenues and continued expansion of its Enterprise and SMB customer bases. Data revenue growth was generated by increased broadband connectivity revenues from the sale of services related to the SuperNet (a next-generation broadband access network in Alberta) and higher data equipment sales, partly offset by a decrease in legacy data due to increased migration of customer traffic to IP-based systems.

Business Operating Income



Business segment operating income decreased 6.0% to $811 million in 2006 from $863 million in the previous year due to higher amortization expense and net benefit plans cost, as well as the loss of higher-margin legacy wireline voice and data business both to IP substitution and the competition. Higher revenues, cost savings from headcount reductions and other productivity improvements, and a shift away from less profitable hardware equipment contracts mitigated the negative year-over-year impacts on operating income.

In our Enterprise unit, operating income declined in 2006, reflecting the impact of lower revenues due to competitive pricing pressures in long distance and legacy data, margin erosion from the ongoing shift in product mix towards IP-based services, a sale in 2005 related to customer contracts for legacy point-of-sales systems, as well as higher net benefit plans cost. These factors were offset partly by lower selling, general and administration expenses and a decrease in labour costs driven primarily by workforce reductions.

SMB operating income growth in 2006 was driven by higher revenues, cost savings from workforce reduction, sales force realignment and outsourcing of call centre functions, as well as other productivity improvements. Margin erosion associated with the shift in sales from legacy wireline services to VAS/VCIO solutions, increased operating expenses from recent business acquisitions, and higher net benefit plans cost moderated the year-over-year improvement in operating income.

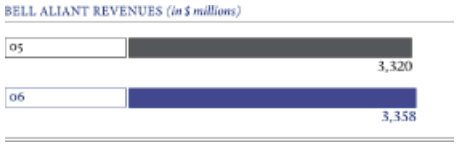
Bell West recorded a lower operating loss this year, primarily as a result of improved gross margins and operating cost reductions, despite increased amortization expense as the SuperNet was in service for a full year. Our Bell West unit achieved a milestone in 2006. EBITDA was positive for the first time in its operating history.

Business 2007 *Outlook*

With a more intense focus on ICT/VCIO profitability in 2007, we intend to leverage the capacity and scale of our Enterprise and SMB operations to take advantage of market opportunities and to pull through connectivity revenues. Our growth strategy will continue to be developed around leveraging the intelligent capabilities of our IP-based network to serve more fully the business needs of the Enterprise market in key ICT vertical markets such as the government and financial services sectors, and to continue raising awareness among our SMB customers about the benefits of ICT solutions delivered through a single point of contact with one service provider. Our SMB unit has refined its VCIO strategy to strengthen its position in the hosting market and to place greater emphasis on leveraging its core traditional connectivity business as a complement to its IT and VAS product offerings. In 2007, we are targeting revenue growth, which is expected to be driven by organic growth in IP-based connectivity service and ICT revenues, further traction of our VCIO strategy in SMB, and continued solid wireless performance. At the same time, we will continue to pay close attention to managing the competitive pressures in our legacy voice and data businesses, while transforming our operations to achieve greater efficiencies and further productivity improvements in order to seek to improve margins. At Bell West, the ongoing reorganization and streamlining of operations is expected to lead to the achievement of further cost efficiencies in 2007.

Bell Aliant Segment

Bell Aliant Revenues



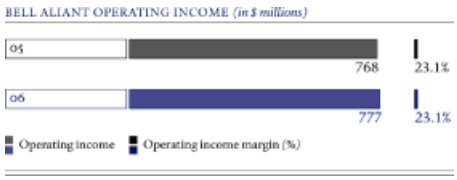
Bell Aliant segment revenues were $3,358 million in 2006, reflecting an increase of $38 million or 1.1% compared to the previous year as growth in data (including Internet) and IT more than offset declining revenues from local and access services and long distance.

Local and access revenues decreased on a year-over-year basis in 2006. This resulted mainly from a 2% decline in the NAS customer base resulting from competitive losses, the reduction of second lines as dial-up Internet customers continued to migrate to high-speed services, and the reduction in primary lines as customers adopted wireless and VoIP technologies. Long distance revenue also decreased in the year, mainly as a result of lower per-minute toll prices and a decline in overall minutes of usage due to competitive pressures and technology substitution.

Data revenues grew solidly in 2006 due largely to a significant increase in Internet revenues attributable to year-over-year subscriber growth of 24%. Service area expansion, reduced levels of promotional pricing in the residential market and increased adoption of enhanced services contributed positively to Internet revenue growth in the year.

Terminal sales and other revenues also increased this year compared with 2005. The year-over-year improvement can be attributed mainly to growth in IT revenues that was driven by new contracts for systems integration, application services and managed outsourcing resulting from our focus on the key industry verticals within the enterprise market, as well as to expansion of existing contracts.

Bell Aliant Operating Income



Operating income at Bell Aliant in 2006 increased 1.2% to $777 million from $768 million in the previous year. Progress made with respect to expense management and productivity initiatives in 2006 was largely offset by higher costs incurred for consulting and professional fees, capital taxes and other expenses related to the formation of Bell Aliant. Although restructuring and other charges of $13 million were included in operating income for 2006, these costs were more than offset by a decline in depreciation and amortization.

Bell Aliant 2007 Outlook

In 2007, Bell Aliant plans to execute on two key strategic priorities to address the growing competitive pressures in its marketplace. Firstly, Bell Aliant intends to provide superior customer experience by delivering high-quality customer service, providing value through leading products and services, and through strong community involvement. Secondly, it intends to drive operational efficiency by aggressively managing its cost structure in order to grow distributable cash flow and deliver incremental value to its unitholders. In addition, leveraging Bell Aliant's scale, access to leading-edge technology and close collaboration with Bell Canada should contribute to further improving operational effectiveness and reducing costs. Bell Aliant also intends to continue exploring opportunities for further consolidation by acquiring other regional and rural operations.

Other Bell Canada Segment

Other Bell Canada Revenues



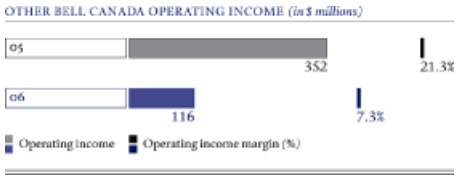
Other Bell Canada segment revenues decreased 3.6% to $1,592 million in 2006, compared to $1,651 million in 2005. Despite higher wholesale demand for local access capacity in Western Canada, the year-over-year decline in revenues was due mainly to the weaker performance of our Wholesale unit as a result of continued pressure on long distance revenues from a reduction in switched minute volumes and competitive pricing, lower rates on cross-border exchange traffic, decreased data revenues

from customers migrating services onto their own network facilities, as well as a number of non-recurring favourable impacts in 2005, which included:

- the early termination of a cross-border facilities contract
- fibre and access capacity sales
- a contract to restore telecommunications service to the areas in the United States affected by Hurricane Katrina.

In addition, a regulatory ruling related to rates we charge for switching and aggregation services to long distance service providers and a ruling related to the fees we charge to competitive local service providers for co-location in Bell Canada's switching offices had an adverse effect on revenue growth this year.

Other Bell Canada Operating Income



Operating income for the Other Bell Canada segment was $116 million in 2006, down from $352 million in 2005. The decrease was due entirely to restructuring and other charges incurred for:

- the involuntary departure of employees and the associated relocation of employees and closing of real estate facilities no longer required as a result of our reduced workforce
- the formation of Bell Aliant
- the formerly planned reorganization of the company into an income trust
- the simplification of our corporate structure.

Excluding restructuring and other items, operating income increased by 6.1% in 2006 to $434 million, reflecting lower cost of goods sold due to lower domestic and international long distance traffic, a decreased volume of termination minutes stemming from reduced southbound traffic to the United States, as well as other cost reductions directly related to our workforce reduction and productivity initiatives. Lower revenues and higher amortization and net benefit plans cost partly offset the year-over-year improvement in operating income.

Other BCE Segment

Other BCE Revenues



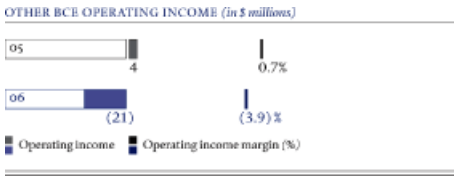
Other BCE segment revenues decreased slightly in 2006, down $3 million to $535 million compared to the previous year.

Revenues from Telesat increased 0.8% to $479 million in 2006 from $475 million in the previous year, due primarily to higher broadcast revenues, increased sales of its two-way broadband service using the Ka-band of the Anik F2 satellite, and the improved performance of its Infosat subsidiary. This was largely offset by non-recurring revenue on a sale in 2005 related to the installation and maintenance of an interactive distance learning network and by reduced business activity in South America.

On December 18, 2006, BCE Inc. announced the sale of Telesat for $3.42 billion to a new company formed by PSP Investments and Loral. The sale is subject to regulatory approval both in Canada and the United States, and other closing conditions including the absence of a material adverse change affecting Telesat's business. The transaction is expected to close in mid-2007. Some other notable developments at Telesat included:

- an announcement on January 17, 2006 of 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
- the placement into service on February 17, 2006 of the Nimiq 4-interim, a satellite leased by Telesat providing further capacity and backup capability for Bell ExpressVu
- an announcement on January 4, 2007 of plans to build and launch Nimiq 5, the latest in Telesat's line of satellites carrying digital television signals, scheduled for launch in 2009.

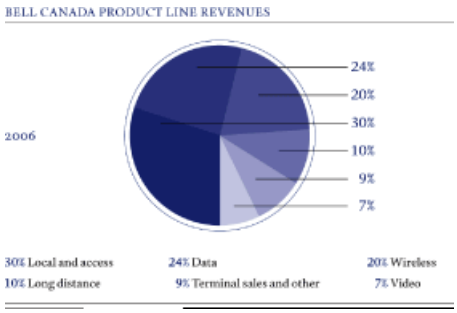
Other BCE Operating Income



Operating income for the Other BCE segment in 2006 decreased to negative $21 million from $4 million in 2005, due mainly to lower operating income at Telesat and higher corporate expenses at BCE Inc.

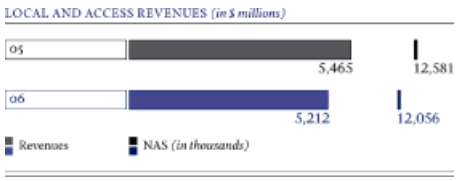
Telesat's operating income in 2006 was $142 million, representing a 9.6% decline when compared with operating income of $157 million in the previous year. The year-over-year decrease reflected special compensation costs related to senior executive changes made in September 2006 and higher amortization expense partly offset by lower cost of network equipment sales. Higher revenues partly offset the decrease in operating income.

PRODUCT LINE ANALYSIS



REVENUES	**2006**	2005	% CHANGE
Local and access	**5,212**	5,465	(4.6%)
Long distance	**1,798**	2,055	(12.5%)
Wireless	**3,491**	3,085	13.2%
Data	**4,120**	4,016	2.6%
Video	**1,150**	976	17.8%
Terminal sales and other	**1,577**	1,637	(3.7%)
Total Bell Canada	**17,348**	17,234	0.7%

Local and Access



Local and access revenues decreased by 4.6% in 2006 to $5,212 million compared to $5,465 million in 2005. The year-over-year decline was due mainly to higher NAS erosion and the consequent loss of SmartTouch features revenue, as well as to lower revenue from wireline maintenance plans. Local and access revenues were also negatively impacted in 2006 by a number of CRTC decisions, including a mandated reduction in local access rates associated with the Price Caps deferral account that took effect on June 1, 2006 and a mandated reduction in rates we charge for switching and aggregation services to long distance service providers. These regulatory rulings reduced local and access revenues by approximately $51 million in 2006.

NAS in service declined by 525,000, or 4.2%, since the beginning of 2006 as a result of increased competition from cable operators for local telephone service, continuing losses to CLECs, and wireline to wireless substitution. The rate of NAS erosion for 2006 reflects a higher level of local line losses than in 2005 at both Bell Canada and Bell Aliant, as the major cable operators in our incumbent territories maintained their intensive marketing efforts and further expanded the footprint of their low-priced local telephony offerings across most of our Ontario and Québec markets. This was partly offset by higher wholesale demand for local access lines in Western Canada and an increase in customer winbacks following the CRTC's decision in April 2006 to reduce the waiting time before we can contact lost customers from one year to three months.

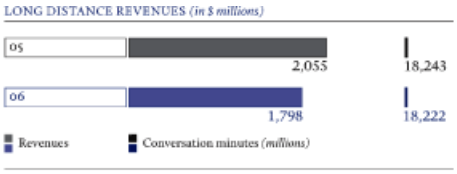
Although the CRTC's regulatory restrictions continue to place restrictions on our local and access business with respect to bundling and packaging of local services with other non-regulated services and limitations on customer winback promotions, there was a positive development on December 11, 2006, when the federal government put forth a proposal to accelerate deregulation of retail telephone prices by implementing new forbearance criteria based on either a competitive facilities-based or competition-based test. Under the new

proposal, restrictions on customer winbacks and other promotions would be ended immediately. In addition, the CRTC would consider each forbearance application on a priority basis and would make a decision within 120 days. The company believes that the federal government proposal could be adopted as early as the end of the first quarter of 2007.

2007 *Outlook*

In 2007, we expect wireline competition to continue, particularly in the Residential market and we are targeting an increase in the number of customer winbacks. Although overall NAS in service will continue to decrease in 2007 as a result of ongoing cable telephony competition and an anticipated slowdown in wholesale demand for local loops, we are targeting a stabilization of residential line losses in 2007.

Long Distance

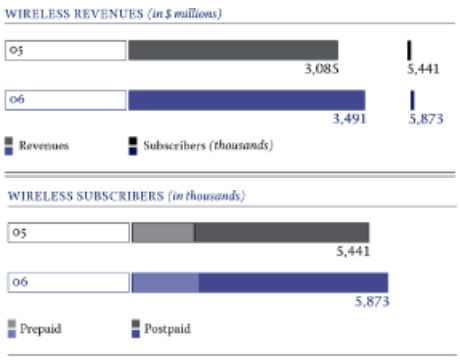


Long distance revenues were $1,798 million in 2006, reflecting a year-over-year decrease of 12.5% compared to 2005. Lower long distance revenues affected all Bell Canada segments, due mainly to the impact of escalating wireless substitution and continued NAS erosion. The year-over-year decrease was offset partly by an increase in the network charges for Residential and SMB customers implemented on April 15, 2006, as well as by higher overseas and calling card per-minute rates. Total minute volumes decreased 0.1% in 2006 to 18,222 million conversation minutes from 18,243 million in 2005. As a result, ARPM decreased by $0.01 during the year to $0.093, reflecting competitive pricing pressures in all our markets and a decline in both domestic and overseas minute volumes.

2007 *Outlook*

We expect that the long distance business will remain fiercely competitive in 2007, due to aggressive marketing by the cable operators of their expanded footprint for low-priced cable telephony service and their ongoing strategy of selling multi-product bundles at discounted rates. We will seek to minimize the decline in long distance revenues through smart pricing actions and targeted marketing of existing long distance services. We also anticipate continued pressure in business long distance revenues in 2007 due to wireless and competitive substitution, as well as to competitive pricing conditions in our Enterprise and Wholesale markets.

Wireless



Gross wireless activations decreased 2.1% in 2006 to 1,440,000, down from a record performance of 1,471,000 gross activations in 2005, due to lower postpaid gross activations that were partly offset by higher prepaid gross activations.

Postpaid rate plans accounted for 65% or 933,000 of the total gross wireless activations in 2006, representing a 9% decline over the 1,025,000 achieved in 2005. This result reflected the impact of aggressive acquisition offers throughout the year from our competitors that featured heavily discounted handsets and rate plans, as well as weaker sales during the 2006 holiday season compared to the same period in 2005 due largely to a decrease in retail traffic in our sales channels. In addition, subscriber growth was affected by lower churn industry-wide, mostly in the second half of the year. The relatively fewer number of customers switching service providers was expected as our competitors locked customers into long-term contracts with handset upgrades

and attractive rate-plan discounts ahead of the implementation of wireless number portability in March 2007. The 14% year-over-year growth in prepaid gross activations, which comprised the remaining 35% or 507,000 gross activations in 2006, was driven by the strong performance of the Solo and Virgin Mobile brands, particularly in the youth segment of the market.

Our postpaid churn rate improved to 1.1% in 2006 from 1.4% in 2005, reflecting the success of our retention activities and the strength of our value proposition, despite competitive market pressures and tighter policies on the granting of customer discounts and hardware upgrades. Our postpaid churn rate in 2005 was adversely affected by the cancellation of non-paying customer accounts stemming from the residual impacts associated with our billing system conversion. Prepaid churn in 2006 increased to 2.6% from 1.9% in the previous year, due mainly to the deactivation of a higher number of inactive Bell Mobility customer accounts and the impact of certain pricing actions taken in 2005. On a combined basis, as a result of lower postpaid churn, our blended churn rate decreased to 1.5% in 2006 from 1.6% in 2005.

As a result of a higher prepaid churn rate, our total wireless net activations decreased to 432,000 in 2006 from 516,000 in 2005, despite higher postpaid net activations. For the year, 71% or 305,000 of our total new net activations subscribed to postpaid rate plans, while the remaining 29% or 127,000 subscribers chose prepaid service. This compares with a postpaid-to-prepaid net activations subscriber mix of 56%-to-44% in 2005. At December 31, 2006, our cellular and PCS subscriber base totalled 5,873,000, representing a 7.9% increase over the past year. Postpaid rate plans represented 74% of our total subscriber base at the end of 2006, unchanged compared to the end of 2005.

Wireless revenues grew 13.2%, or $406 million, to $3,491 million in 2006, compared with 2005, reflecting the combined impact of increased ARPU and a higher average number of customers in our subscriber base.

Postpaid ARPU increased by $3 year over year to reach $64 per month. The significant improvement was achieved primarily as a result of:

- a shift in our subscriber acquisition mix toward higher ARPU postpaid customers, reflecting higher penetration of BlackBerry customers and other heavy users subscribing to higher-priced rate plans
- the positive impact of price increases for certain services and features over the past year, including an increase in Bell Mobility's system access fee from $6.95 to $8.95 per month
- an overall increase in minutes of usage
- strong growth in data usage.

Higher data usage reflected the continued growth of text and multimedia messaging services, wireless Internet access, downloadable ringtones, music and games, as well as the continued popularity of our 'Fuel Me' bundled data offers and '10-4' push-to-talk service. Offsetting these positive impacts on postpaid ARPU for 2006 were lower value-added service revenues and lower basic access fee revenue as a result of the considerable number of customers subscribing to our 'All in One' plans (discontinued in February 2006), for which all service fees and a number of features are included as part of the monthly plan cost.

Prepaid ARPU remained unchanged year over year at $14 per month, despite an increased number of higher-than-average ARPU Solo and Virgin Mobile customers in our prepaid subscriber base, the success of the President's Choice branded mobile service, and higher data usage. These positive factors were offset by a higher number of inactive prepaid customers in our subscriber base and the favourable impact on revenues in 2005 of the recognition of deferred revenues related to unused prepaid minutes.

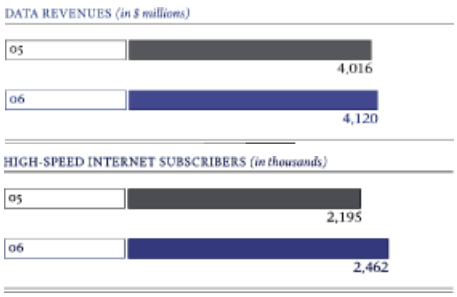
As a result of higher postpaid ARPU, blended ARPU increased by $2 in 2006 to $51 per month, compared to $49 in the previous year.

2007 *Outlook*

We believe that there are considerable opportunities for growth in the wireless market for 2007, driven by expected further wireless penetration which will effectively expand our addressable market for new subscribers. In addition, wireless operators are investing in high-speed data networks, enabling a wider suite of wireless data products and services in the market.

We expect that our Wireless unit will continue to be a key contributor to Bell Canada's revenue and EBITDA growth in 2007. The financial performance of Bell Mobility will depend on our continued ability to focus on profitable growth and the sound execution of our market strategies. These strategies include attracting and retaining high value clients, expanding our channels of distribution, improving our network quality, coverage and speed, as well as enhancing the client experience. We expect our wireless revenues to increase as a result of higher ARPU from new services, selective price increases and continued expansion of our subscriber base. Our plan to achieve higher ARPU in 2007 is expected to be enabled by strengthening our handset and device portfolio and the continued growth in wireless data. We expect data growth to be driven by higher take-up rates for data bundles, and increasing usage from wireless services such as text and picture messaging, web browsing, and music and video downloads.

Data



Data revenues increased 2.6%, or $104 million, to $4,120 million in 2006 compared to 2005. The year-over-year improvement was mainly the result of:

- higher Internet revenues stemming from the combined impact of higher ARPU and an increase in the number of high-speed Internet access service connections
- the positive impact of Sympatico's hardware purchase program
- increased sales of IP-based connectivity and ICT solutions in our Business segment
- incremental revenues from companies acquired over the past year to enhance our ICT product portfolio and create cross-selling opportunities with our Enterprise and SMB customers
- increased revenues from the SuperNet
- an adjustment made to revenues in 2005 related to the CRTC's decision regarding Competitor Digital Network (CDN) Services.

The positive effect on data revenue growth in 2006 of these factors was tempered by the impact of decreased legacy data revenues in our Business segment mainly as a result of competitive pricing and the ongoing rationalization of circuit networks by wholesale customers. In addition, data revenue growth for the year was dampened by a number of non-recurring items from 2005, including the sale of customer contracts within our Enterprise unit related to legacy point-of-sale systems, fibre and access capacity sales in our Wholesale unit, and the early termination of a wholesale cross-border facilities contract.

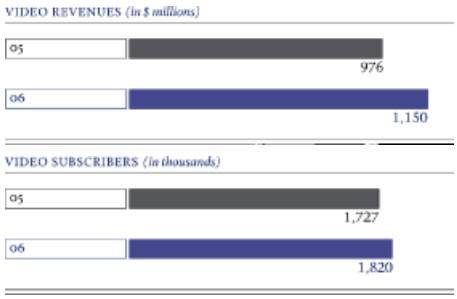
The number of high-speed Internet subscribers increased by 267,000 in 2006, compared to 387,000 in 2005, bringing the total subscriber count as at December 31, 2006 to 2,462,000. Our primary focus in 2006 was to up-sell customers to higher-speed products in order to increase ARPU, drive subscriber growth through expanded use of hardware offers such as our PC Fusion and LCD Monitor programs and reduce customer churn. Sympatico's subscriber growth in 2006 was adversely affected by the impact of ongoing aggressive price discounting on multi-product bundle offers from the major cable operators in our markets. In order to combat the aggressive competitive pricing conditions in Québec, we launched a targeted marketing campaign during the second quarter of 2006, offering special promotional rates on our Basic and High Speed Edition services for a limited time period. Moreover, higher net additions in 2005 were driven by the introduction of our Basic Lite service offering in the Ontario market and by substantial footprint expansion. A major upgrade to the Sympatico order management system during the fourth quarter of 2006 also negatively impacted the sales process within our retail channels and at our contact centres.

The combined impact of an extensive broadband access footprint and focused selling of entry-level highspeed Internet products has contributed to the expansion of the overall high-speed market and supported the ongoing erosion of dial-up Internet service. Total dial-up customers decreased to 511,000 at the end of 2006 from 586,000 at the end 2005. Our high-speed Internet access footprint in Ontario and Québec reaches more than 85% of homes and business lines passed.

2007 *Outlook*

In 2007, we expect further revenue erosion in our legacy data services from continued customer migration to IP-based networks, offset by anticipated high-speed Internet subscriber base and revenue growth, increased penetration of value-added ICT solutions, as well as select price increases for certain services. We also anticipate our Residential segment to experience slower high-speed Internet subscriber growth due to the already high level of high-speed Internet access penetration in our Ontario and Québec markets and sustained aggressive price competition in our incumbent territories arising from cable operators' increased emphasis on selling multi-product bundles at discounted rates.

Video



Our Video unit reported solid financial performance in 2006, growing its revenues by 17.8% to $1,150 million compared to $976 million in 2005. The year-over-year improvement was driven by subscriber growth and significantly higher ARPU, which reflected the impact of price increases implemented over the past year, continued up-selling of customers to enhanced programming packages, further growth of STB rentals and higher pay-per-view take rates.

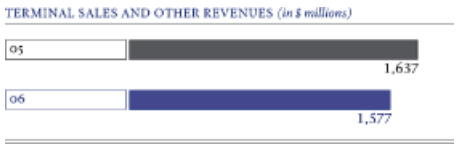
Our video subscriber base grew by 5.4% over the past year to reach 1,820,000 as at December 31, 2006. We added 93,000 new net video subscribers in 2006, compared with higher than average net additions of 224,000 in 2005. The year-over-year decrease can be attributed mainly to our increased focus on profitable growth, weaker sales in our retail channels, aggressive analog to digital conversions by cable operators, and the acquisition of Cable VDN in 2005, which added 12,500 new customers to our subscriber base at that time. Despite lower than expected volumes in our retail channels during 2006, higher sales in our direct channels were supported by the success of our 'All-in-One' plans, which combine programming, equipment, installation and warranty into simple packages. Our video churn rate increased slightly to 1.0% in 2006 from 0.9% in the previous year, due primarily to more aggressive hardware offers from our cable competitors, who bundle their television service with other products at discounted rates. Higher year-over-year churn also contributed to softer net activations in the year.

Video ARPU increased to $54 per month in 2006 from $50 per month in the previous year. The $4 improvement resulted primarily from customers upgrading to higher-priced programming packages, higher pay-per-view revenues, and price increases implemented over the past year. In 2006, we continued to exercise pricing discipline by applying a $2 rate increase at the beginning of the year on our standard digital programming package for all existing customers without a contract and by increasing the system access fee in May by $3 per month for a portion of our subscribers. The year-over-year improvement in ARPU was partly offset by higher customer credits on STB rentals and programming, as well as by increased customer retention discounts.

2007 *Outlook*

In 2007, growth in video revenues is expected to continue, driven by the ongoing increase in our subscriber base and further ARPU improvements, which are expected to be achieved through the full-year impact of price increases in 2006, the implementation of additional price increases in 2007 and the sale of a higher mix of premium and HD programming. We will continue to leverage our video service as part of our Residential segment's overall multi-product household strategy in seeking to maximize the profitability and retention of our existing subscriber base and to support the increasing penetration of our growth services. We will continue to invest in our IPTV platform and to develop additional services and capabilities across all video platforms to support our competitive market positioning for the future. The launch of our IPTV service remains on track, supported by our FTTN rollout, which will enable our IP network to offer the unique video experience that IPTV promises to deliver to our customers. Recent milestones reached in our service trials and in our negotiations with Microsoft and other key suppliers will allow us to extend the availability of the service beyond the pilot customer groups currently using the service in Toronto and Montréal.

Terminal Sales and Other



Terminal sales and other revenues decreased 3.7% to $1,577 million in 2006, compared to $1,637 million in 2005. The year-over-year decline reflected reduced sales of legacy voice equipment to Enterprise and SMB customers, the negative impact of a CRTC ruling related to the fees we charge to competitive local service providers for co-location in Bell Canada's switching offices, a decrease in wireless equipment sales at Bell Mobility and lower video STB sales at Bell ExpressVu. The one-time contribution to revenues in 2005 from the sale of our U.S. conferencing solutions and a contract to help restore telecommunications service to the areas in the United States affected by Hurricane Katrina also contributed to the year-over-year decline in revenues. These factors were partly offset by higher IT service and product sales at Bell Aliant's xWave division and higher telecommunications equipment sales associated with Bell Aliant's PC purchase program.

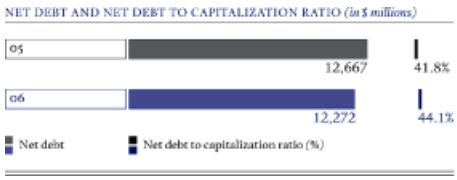
Financial and Capital Management

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, cashflows and liquidity on a consolidated basis.

CAPITAL STRUCTURE

Our capital structure shows how much of our net assets are financed by debt and equity.

	2006	2005
Debt due within one year	**986**	1,161
Long-term debt	**11,867**	11,855
Less: Cash and cash equivalents	**(581)**	(349)
Total net debt	**12,272**	12,667
Non-controlling interest	**2,180**	2,898
Total shareholders' equity	**13,367**	14,721
Total capitalization	**27,819**	30,286
Net debt to capitalization	**44.1%**	41.8%
Outstanding share data (in millions)		
Common shares	**807.6**	927.3
Stock options	**24.2**	27.3



Our net debt to capitalization ratio was 44.1% at the end of 2006, compared to 41.8% at the end of 2005. This was a result of a decrease in total shareholders' equity and a decrease in non-controlling interest, partly offset by a decrease in net debt.

Net debt decreased $395 million to $12,272 million in 2006 mainly due to:

- free cash flow of $708 million
- cash provided from discontinued operations of $2,087 million mainly relating to:

– $665 million net proceeds from the sale of our investment in CTVglobemedia offset by the deconsolidation of CTVglobemedia's cash on hand of $35 million

– CTVglobemedia's return of capital of $607 million as part of the recapitalization of CTVglobemedia

– $849 million net proceeds from the sale of CGI offset by the deconsolidation of CGI's cash on hand of $81 million and $21 million incurred for the exercise of CGI warrants

– BCI's return of capital of $156 million offset by BCE's contribution to BCI of $61 million in satisfaction of its obligation arising from last year's tax loss monetization

– $23 million of cash generated from CTVglobemedia's operations.

This was partly offset by:

- BCE's repurchase and cancellation of 45 million of its outstanding common shares for $1.2 billion
- an increase in investments of $304 million
- Bell Aliant's redemption of preferred shares for $175 million
- Bell Nordiq's redemption of preferred shares for $60 million
- Telesat's redemption of preferred shares for $50 million

- obligations of $267 million for additional capital leases
- $255 million of costs relating to the formation of Bell Aliant.

Non-controlling interest decreased by $718 million in 2006 due mainly to:

- $552 million relating to the deconsolidation of CTVglobemedia
- $279 million relating to the return of capital as part of the recapitalization of CTVglobemedia
- Bell Aliant's redemption of preferred shares for $175 million
- Bell Nordiq's redemption of preferred shares for $60 million
- Telesat's redemption of preferred shares for $50 million.

This was partly offset by a $469 million increase in non-controlling interest at Bell Aliant as a result of our decreased ownership after the formation of Bell Aliant.

Total shareholders' equity decreased $1,354 million to $13,367 million in 2006. This was mainly due to BCE Inc.'s repurchase of 45 million of its outstanding common shares for cancellation through an NCIB and a reduction of 75.8 million outstanding common shares in conjunction with the distribution of Bell Aliant trust units, by way of a return of capital, to holders of BCE Inc. common shares. This was partly offset by an increase in net earnings of $420 million in excess of both the dividends declared and a reduction because the purchase price of common shares cancelled in 2006 was higher than the stated capital of common shares.

OUTSTANDING SHARE DATA

We had 807.6 million common shares outstanding at the end of 2006, a decrease of 119.7 million over 2005 resulting from BCE Inc.'s repurchase of 45 million of its outstanding common shares for cancellation through a NCIB and the reduction of 75.8 million outstanding common shares by BCE Inc. in conjunction with a distribution of Bell Aliant trust units, by way of a return of capital, to holders of BCE Inc. common shares.

The number of stock options outstanding at the end of 2006 was 24.2 million, a decrease of 3.1 million from 2005. The weighted average exercise price of the stock options outstanding at December 31, 2006 was $33. Of the total outstanding stock options at December 31, 2006,16.6 million were exercisable at a weighted average exercise price of $35. In 2006:

- 0.5 million stock options were granted
- 1.2 million of previously granted options were exercised
- 2.3 million of 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.

CASH FLOWS

The following table is a summary of the flow of cash into and out of BCE in 2006 and 2005.

	2006	2005
Cash flows from operating activities	**5,389**	5,337
Capital expenditures	**(3,133)**	(3,357)
Other investing activities	**(2)**	39
Cash dividends paid on common shares	**(1,169)**	(1,195)
Cash dividends paid on preferred shares	**(84)**	(86)
Cash dividends paid by subsidiaries to non-controlling interest	**(293)**	(169)
Free cash flow	**708**	569
Business acquisitions	**(71)**	(228)
Bell Aliant	**(255)**	—
Increase in investments	**(304)**	(233)
Decrease in investments	**64**	17
Issue of common shares	**29**	25
Repurchase of common shares	**(1,241)**	—
Net repayment of debt instruments	**(432)**	(47)
Financing activities of subsidiaries with third parties	**(292)**	(77)
Other financing activities	**(157)**	(64)
Cash provided by discontinued operations	**2,087**	103
Net increase in cash and cash equivalents	**136**	65

Cash from Operating Activities



Cash from operating activities was $5,389 million in 2006, an increase of $52 million or 1.0% compared to $5,337 million in 2005. Cash from operating activities was impacted positively by:

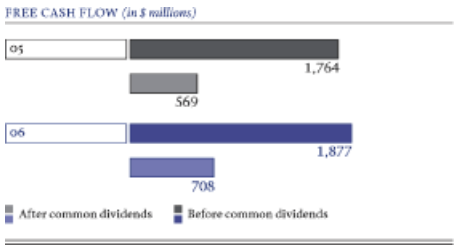
- improvements in cash earnings resulting from higher EBITDA
- a decrease in pension and other benefit plan payments
- a decrease of $25 million in interest payments

- an improvement in working capital.

These improvements were partly offset by:

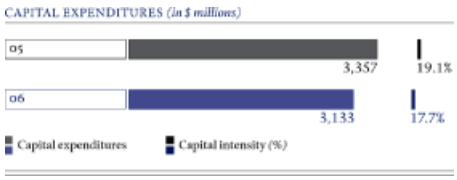
- a decrease of $245 million in proceeds from the sale of accounts receivable
- compensation payments of $67 million made to executives and other key employees further to the vesting of all restricted share units (RSUs) granted for a two-year performance period ending at the end of 2005, based on the achievement of specific operating objectives established at the outset of the program two years ago
- payments of $66 million in relation to the pay equity settlements announced in Q2 2006.

Free Cash Flow



Our free cash flow was $708 million in 2006, an improvement of $139 million, or 24%, over free cash flow of $569 million in 2005. The $52 million increase in cash from operating activities described previously was further impacted by a decrease of $224 million in capital expenditures partly offset by an increase of $124 million in dividends paid to non-controlling interest, mainly for distributions made by Bell Aliant, and by $30 million in insurance proceeds received by Telesat in 2005.

Capital Expenditures



In 2006, we continued to make investments to expand and update our networks, enhance broadband access and capabilities, and meet customer demand for new services. Capital expenditures were $3,133 million in 2006 for BCE, down 6.7% compared to 2005 capital expenditures of $3,357 million. Similarly, Bell Canada's capital expenditures decreased 6.3% this year to $2,921 million. The difference in capital expenditures between BCE and Bell Canada was due to spending on satellite builds at Telesat.

As a percentage of revenues, total capital expenditures for BCE decreased to 17.7% in 2006 from 19.1% last year, while capital intensity for Bell Canada declined 1.3 percentage points year over year to reach 16.8%.

Our capital spending in 2006 reflected reduced spending in the legacy areas of our business as we focused increasingly on key strategic priorities within our growth services. Our key strategic priorities for 2006 included:

- the expansion of our FTTN footprint to deliver higher-speed broadband access
- further deployment of our EVDO wireless high-speed mobile data network
- investment in our IPTV platform
- enhancements to the quality and breadth of our wireless and DSL networks.

Our capital spending also was lower in 2006 because of reduced spending on IT infrastructure and systems to support our cost reduction program and productivity initiatives, lower spending at Bell Aliant and the completion in 2005 of the SuperNet.

In 2007, we are targeting to maintain Bell Canada's capital intensity ratio near its 2006 level. We anticipate a slight increase in overall capital expenditures as we continue to focus on increasing investment in our key strategic priorities, including wireless growth and network enhancements, FTTN footprint expansion, deployment of IPTV, and overall network and service quality.

Other Investing Activities

Cash used in other investing activities of $2 million in 2006 decreased by $41 million compared to cash from other investing activities of $39 million in 2005 mainly due to insurance proceeds received by Telesat in 2005.

Cash Dividends Paid on Common Shares

In 2006, BCE Inc. paid a dividend of $1.32 per common share, which was equal to the dividend paid in 2005. The $26 million decrease in total cash dividends paid in 2006 is a direct result of a decrease in the number of BCE Inc. common shares issued and outstanding as at the dividend declaration date as a result of BCE Inc.'s NCIB announced on February 1, 2006 and the reduction in the number of outstanding common shares on July 10, 2006 made in conjunction with the distribution of Bell Aliant trust units to BCE Inc. shareholders.

In February 2007, the board of directors of BCE Inc. approved an increase of 11% or $0.14 per common share in the annual dividend on BCE Inc.'s common shares. The quarterly dividends equal $0.365 per common share compared to $0.33 per common share in 2006.

Cash Dividends Paid by Subsidiaries to Non-Controlling Interest

Dividends paid by subsidiaries to non-controlling interest of $293 million in 2006 increased by $124 million or by 73% compared to $169 million for 2005 mainly due to Bell Aliant's cash distributions to its unit holders starting in the second half of 2006 as a result of the formation of the trust.

Business Acquisitions

We invested $71 million in 2006 for various business acquisitions.

We invested $228 million for business acquisitions in 2005. This consisted mainly of:

- Bell Canada's acquisition of Nexxlink Technologies Inc. for $74 million
- Bell Canada's acquisition of NR Communications for $60 million
- other business acquisitions, mainly at Bell Canada, totalling $94 million.

Bell Aliant

Cash used for the payment of costs for the formation of Bell Aliant was $255 million in 2006. This included $133 million for transaction costs, which related mainly to investment banking, professional and consulting fees, and $122 million for premium costs paid on the redemption, prior to maturity, of Bell Aliant debt.

Increase in Investments

Cash flows used for investments in 2006 of $304 million increased $71 million or 30% from $233 million in 2005. The activity in 2006 includes our additional investment of US$84 million in Clearwire Corporation (Clearwire), a privately-held company that offers advanced IP-based wireless broadband communications services, in order to maintain our 12% interest in the company. Telesat increased its short-term investments by $15 million.

The activity in 2005 relates mainly to our investment of US$100 million to acquire an approximate 12% interest in Clearwire in the first quarter of 2005 and Telesat's increase in short-term investments of $63 million.

Decrease in Investments

Cash flows provided by investments of $64 million in 2006 increased by $47 million compared to $17 million in 2005, mainly due to the sale of short-term investments of $64 million at Telesat.

Repurchase of Common Shares

In total for 2006, BCE Inc. repurchased for cancellation 45 million common shares, or approximately 5% of the company's outstanding common shares, for a total cost of $1,241 million under the 2006 NCIB program. On December 12, 2006, BCE Inc. also announced its plan to renew its share buyback program for another twelve-month period to repurchase approximately another 5% of its outstanding common shares through a NCIB, representing an estimated value in excess of $1 billion. On February 6, 2007, the company received acceptance from the Toronto Stock Exchange of its notice of intention to make a NCIB.

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.

In 2006, we repaid $432 million of debt, net of issuances, including the following:

- BCE Inc. repaid $1,350 million of debt
- Bell Canada repaid $463 million of debt
- Bell Aliant redeemed $785 million of debentures and bonds
- Telesat repaid $150 million in notes payable
- we made other repayments that included capital leases.

This was partly offset by Bell Aliant's draw down of $1,235 million of its credit facilities and the issuance of $1,250 million of debt.

In 2005, we repaid $47 million of debt, net of issuances. The repayments included $750 million in debentures at Bell Canada and other repayments that included capital leases. The issuances included $900 million in debentures at Bell Canada.

Cash Relating to Discontinued Operations

In 2006, cash provided by discontinued operations was $2,087 million. This consisted mainly of:

- $665 million net proceeds from the sale of our investment in CTVglobemedia offset by the deconsolidation of CTVglobemedia's cash on hand of $35 million
- CTVglobemedia's return of capital of $607 million as part of the recapitalization of CTVglobemedia
- $849 million net proceeds from the sale of CGI's offset by the deconsolidation of CGI's cash on hand of $81 million and $21 million incurred for the exercise of CGI warrants
- BCI's return of capital of $156 million offset by BCE's contribution to BCI of $61 million in satisfaction of its obligation arising from last year's tax loss monetization
- $23 million of cash generated from CTVglobemedia's operations.

In 2005, cash provided by discontinued operations was $103 million and was mainly related to cash generated from CTVglobemedia and CGI's operations.

CREDIT RATINGS

The interest rates we pay are based partly on the quality of our credit ratings, which were all investment grade at March 7, 2007. 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. BCE Inc. and Bell Canada have stable outlooks from DBRS(2), Moody's(3) and Fitch(4) and a negative outlook from S&P (1).

The table below lists BCE Inc.'s and Bell Canada's key credit ratings at March 7, 2007. On December 12, 2006, S&P removed BCE Inc. and Bell Canada from Credit Watch and affirmed their ratings; DBRS removed the long-term debt and preferred shares ratings of BCE Inc. and Bell Canada from under review and confirmed their ratings; Moody's affirmed BCE Inc. and Bell Canada's ratings; and on October 11, 2006, Fitch affirmed BCE Inc. and Bell Canada's ratings.

	BCE INC.			
	S&P(1)	DBRS(2)	MOODY'S(3)	FITCH(4)
Commercial paper	A-l (low)	R-1 (low)	P-2	—
Extendible commercial notes	—	R-2 (high)	—	—
Long-term debt	BBB+	A (low)	Baa2	BBB+
Preferred shares	P-2	Pfd-2 (low)	—	—

	BELL CANADA			
	S&P(1)	DBRS(2)	MOODY'S(3)	FITCH(4)
Commercial paper	A-l (low)	R-l (low)	P-2	—
Extendible commercial notes	—	R-l (low)	—	—
Long-term debt	A-	A	Baal	BBB+
Subordinated long-term debt	BBB+	BBB (high)	Baa2	BBB

(1) Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

(2) Dominion Bond Rating Services Limited

(3) Moody's Investors Service, Inc.

(4) Fitch Ratings Ltd.

LIQUIDITY

We expect to generate enough cash in 2007 from our operating activities to pay for capital expenditures and dividends. In other words, we are targeting free cash flow in 2007.

We expect to repay contractual obligations maturing in 2007, including repayment of our outstanding debt, and share buybacks from cash on hand, cash generated from our operations, by issuing new debt and by selling non-core assets.

Cash Requirements

In 2007, we will need cash mainly for capital expenditures, dividend payments, pension funding, the payment of contractual obligations and outstanding debt, share buybacks and other cash requirements.

Capital Expenditures

Capital expenditures were $3.1 billion in 2006, representing 17.7% of our revenues for the year. Capital expenditures for Bell Canada were $2.9 billion in 2006, representing 16.8% of Bell Canada's revenues for the year. We are targeting to maintain Bell Canada's capital intensity ratio relatively near its 2006 level for 2007.

Pension Funding

We expect to contribute approximately $270 million to our defined benefit pension plans in 2007, subject to actuarial valuations being completed. We expect to pay approximately $100 million to beneficiaries under other employee benefit plans in 2007. We expect to contribute approximately $30 million to the defined contribution pension plans in 2007. Of the total funding requirements above, approximately $300 million relates to Bell Canada.

Contractual Obligations

The following table is a summary of our contractual obligations at December 31, 2006 that are due in each of the next five years and after 2011.

	2007	2008	2009	2010	2011	THERE-AFTER	TOTAL
Long-term debt (excluding capital leases)	744	1,051	2,758	1,076	1,008	5,117	11,754
Notes payable and bank advances	36	—	—	—	—	—	36
Capital leases	206	120	47	45	89	556	1,063
Operating leases	219	199	171	143	116	771	1,619
Commitments for capital expenditures	202	116	46	4	3	49	420
Purchase obligations	1,295	988	493	353	321	414	3,864
Other long-term liabilities (including current portion)	74	42	44	47	49	21	277
Total	2,776	2,516	3,559	1,668	1,586	6,928	19,033

Long-term debt and notes payable and bank advances include $1,344 million drawn under our committed credit facilities. They do not include $444 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 $4.4 billion. Current commercial paper credit lines expire in August 2009 and Bell Aliant's current commercial paper credit lines expire in July 2011.

The imputed interest to be paid on capital leases is $474 million.

Rental expense relating to operating leases was $275 million in 2006, $312 million in 2005 and $354 million in 2004.

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. for the development of Bell Canada's billing system. The total amount was $204 million at December 31, 2006.
- Telesat's deferred satellite performance incentive payments and their deferred milestone payments. The total amount was $73 million at December 31, 2006.

At December 31, 2006, 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 future 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 contingencies, off-balance sheet arrangements and derivative instruments. 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 27 to the consolidated financial statements for more information.

Securitization of Accounts Receivable

Bell Canada and Bell Aliant have agreements in place that provide them with a more attractive form of financing other than debt financing.

Under the agreements, Bell Canada and Bell Aliant sold interests in pools of accounts receivable to securitization trusts for a total of $1,320 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, Bell Canada and Bell Aliant would no longer be able to sell their receivables and would need to find an alternate source of financing.

These agreements are an important part of our capital structure and liquidity. If we did not have them, we would have issued $1,320 million of debt or equity. See Note 11 to the consolidated financial statements for more information.

Commitment under the CRTC Deferral Account Mechanism

Please refer to *Commitment under the CRTC Deferral Account Mechanism* within the *Regulatory Environment* section for further analysis.

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 under our special compensation payments (SCPs) and deferred share units (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 $53 million at December 31, 2006. Their fair values amounted to a net liability of $96 million. See Note 22 to the consolidated financial statements for more information.

Litigation

We become involved in various 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, 2006, 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, 2006 in the BCE 2006 AIF, and in Note 26 to the consolidated financial statements.

Sources of Liquidity

While we do not expect a cash shortfall in the foreseeable future, we would cover any shortfall 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, or by selling non-core assets. 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, 2006.

	COMMITTED	NON-COMMITTED	TOTAL
Commercial paper credit lines (1)	1,711	2,000	3,711
Other credit facilities (2)	2,653	751	3,404
Total	4,364	2,751	7,115
Drawn (2)	1,787	—	1,787
Undrawn	2,577	2,751	5,328

(1) BCE Inc.'s and Bell Canada's current commercial paper credit lines expire in August 2009 *and Bell Aliant's current commercial paper credit lines expire in July 2011.*

(2) Includes $444 million in letters of credit.

BCE Inc., Bell Canada and Bell Aliant may issue notes under their commercial paper programs up to the amount of their supporting committed lines of credit. The total amount of these supporting committed lines of credit available (net of letters of credit) was $1.7 billion at December 31, 2006.

BCE Inc., Bell Canada and Bell Aliant had no commercial paper outstanding at December 31, 2006.

Bell Canada can issue up to $400 million of 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, 2006.

Competitive Environment

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, and 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. Changes in our pricing strategies that result in price increases for certain services or products or changes in pricing strategies by our competitors could affect our ability to gain new customers and retain existing ones. 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 broadcast distribution undertakings. 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 and how it may affect us.

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. In particular, there is a risk that wireline to wireless substitution could accelerate with the introduction of wireless number portability (refer to *Regulatory Environment — Wireless Number Portability* below for more details concerning the implementation of wireless number portability).

We are also facing competitive pressure from cable companies as a result of them offering voice services over their networks. Although we expect the rate of losses in our residential NAS to stabilize in 2007, this assumption could be adversely affected by the level of intensity applied by our cable competitors in pursuing their voice strategy. This assumption could also be adversely affected by the level of wireline to wireless substitution resulting from the implementation of wireless number portability. Additional competitive pressure is also emerging from other competitors such as electrical utilities. These alternative technologies, products and services are making 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 continue 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. Such competitors may be less concerned about the quality of service or the impact on their margins than we are.

These competitive factors suggest that the number of our legacy wireline customers and our 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 through cost reductions and by building the business for newer growth services. The margins on newer services, however, are less than the margins on legacy services. If legacy services revenues decline faster than the rate of growth in revenues of our newer services, our financial performance could be negatively and materially affected. Bringing to market new growth products and services is inherently risky, as it requires capital and other investments, while the demand for the products or services is uncertain. It may also require us to compete in areas outside our core connectivity business against highly capable global information technology service providers. The launch of new products or services could be delayed or cancelled due to reductions in the amount of capital available to be invested.

INTERNET ACCESS

We compete with cable companies and Internet service providers (ISPs) to provide broadband and dial-up 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 continue to develop and market services that compete directly with Bell Canada's Internet access 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.

There is a risk that should the pace of our FTTN rollout be slower than currently contemplated in our business plan, our broadband ISP churn rate could increase beyond our current expectations, thereby adversely affecting our expected number of Internet subscribers in 2007. With the rapid growth in video applications on the Internet, there is also a risk that we will need to incur significant capital expenditures to provide additional capacity on our Sympatico network, which costs we may not be able to recover initially from customers due to competitors' short-term pricing of equivalent Internet services. This could have a material adverse effect on our results of operations.

WIRELESS

The Canadian wireless telecommunications industry is also 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. In addition, competition could also increase as a result of Industry Canada's intention to initiate a consultation which could result in the licensing of additional mobile spectrum (refer to *Regulatory Environment – Mobile Spectrum* below for more details on this subject). Furthermore, wireless number portability could increase churn beyond our current expectations and adversely affect our estimates concerning our expected number of wireless subscribers in 2007.

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 has improved their competitiveness. This could materially and negatively affect the financial performance of Bell ExpressVu and Bell Canada.

Regulatory Environment

DECISIONS OF REGULATORY AGENCIES

Our business is affected by decisions made by various regulatory agencies, including the CRTC. For example, many of the decisions of the CRTC indicate that it tries 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 below as well as in the BCE 2006 AIF under the heading *The Regulatory Environment we operate in*.

TELECOM POLICY REVIEW PANEL'S FINAL REPORT

On March 22, 2006, the Telecommunication Policy Review Panel (Panel), a panel of experts appointed by the Minister of Industry to review Canada's telecommunications policy and regulatory framework and make recommendations, released its final report. The report, which contains over 100 recommendations, calls for significant changes to the structure and nature of telecommunications regulation in Canada.

The Panel's report calls for many changes to the regulatory environment that could have a material impact on our business performance. The thrust of the report is that the state of competition in Canada has progressed to the point where, at least for economic regulation, the CRTC should remove most of its existing regulations and instead rely on market forces.

The Panel calls for short-term changes to regulation through a variety of federal government programs and, more significantly, through a policy direction – an instrument whereby the Cabinet can give binding directions on general policy to the CRTC. The Panel also calls for significant changes to the *Telecommunications Act*.

The Panel also recommends a relaxation of Canada's foreign ownership restrictions as they apply to telecommunications common carriers. In addition to the recommendations addressing wireline regulation, the Panel also makes a number of recommendations separately addressing issues related to wireless regulation in Canada. These include, among other things, a recommendation for the continued use of regulatory mechanisms such as spectrum caps (aggregation limits) where spectrum is scarce to provide an opportunity for new entrants to acquire spectrum in order to have an expanded choice of service providers. Other recommendations concerning competitive access to wireless antennae sites and support structures could serve to facilitate competitive entry into the Canadian wireless industry. If implemented, the cumulative effect of such recommendations could have a negative effect on our business and results of operations.

POLICY DIRECTION

On June 13, 2006, the Minister of Industry tabled in both houses of Parliament a draft policy direction to be issued by the Cabinet to the CRTC. On December 14, 2006, the policy direction issued by the Cabinet to the CRTC (Policy Direction) came into effect. The Policy Direction calls on the CRTC to "rely on market forces to the maximum extent feasible" and to design regulations that "interfere with the operation of competitive market forces to the minimum extent necessary." The CRTC is bound to follow the Policy Direction in making its decisions. However, the Policy Direction is of a general policy nature and does not direct the CRTC to reach any particular outcomes on any specific files.

COMMITMENT UNDER THE CRTC DEFERRAL ACCOUNT MECHANISM

On February 16, 2006, the CRTC issued Telecom Decision 2006-9, where it concluded on the ways in which incumbent telephone companies should clear the accumulated balances in their deferral accounts. On September 1, 2006, Bell Canada and Bell Aliant filed their proposals for clearing the accumulated balances in their deferral accounts. If approved by the CRTC, the proposals would improve access to communications for persons with disabilities (5% of estimated balance) and extend broadband access to some 220,000 potential customers in 264 communities across Ontario and Québec where it would not otherwise be made available on a commercial basis.

On November 30, 2006, the CRTC issued Public Notice 2006-15, initiating a proceeding to assess these proposals. A decision in this proceeding is scheduled to be issued in January 2008.

Bell Canada's accumulated deferral account balance at December 31, 2006 is estimated to be $479 million, with an estimated future annualized commitment of $24 million. Bell Aliant's accumulated deferral account balance at December 31, 2006 is estimated to be $8 million, with no estimated future annualized commitment.

Due to the nature and number of uncertainties that remain concerning the disposition of accumulated balances in the deferral account, we are unable to estimate the impact of the CRTC's decision on our financial results at this time.

PRICE CAP FRAMEWORK REVIEW

On May 9, 2006, the CRTC issued Public Notice 2006-5, initiating a proceeding to establish the price cap framework to replace the existing framework that ends on May 31, 2007. On July 10, 2006, Bell Canada, Bell Aliant and Saskatchewan Telecommunications filed a pricing framework proposal that reflects the significant changes that have taken place in the industry. The proposed framework would come into effect on June 1, 2007 and apply for a period of two years.

We proposed that the price cap should be removed in areas where services are available via alternative facilities, allowing consumers and competition in these areas to drive market prices. In areas where alternative facilities are not available, we proposed that service prices remain subject to regulation with upward pricing capped, on average, at current levels. In keeping with both the recommendations of the Panel issued in March 2006 and the Policy Direction, our proposal would interfere with market forces to the least extent possible. The evidence was subject to an interrogatory process as well as a public hearing, which took place in October 2006. The CRTC intends to issue a decision on this proceeding by April 30, 2007.

There is a risk that the CRTC may not accept our proposals to rely on market forces to the maximum extent possible and may continue to impose limitations on our marketing flexibility, impeding our ability to respond to market forces.

REVIEW OF REGULATORY FRAMEWORK FOR WHOLESALE SERVICES

As required by the Policy Direction, on November 9, 2006, the CRTC released Public Notice 2006-14, in which it initiated a comprehensive review of the regulatory framework requiring incumbent telephone companies to provide wholesale access to certain telecommunication services to competitors. As part of this review, the CRTC will examine the appropriate definition of essential services and the pricing principles for such services. In addition, the regulatory treatment for non-essential services will also be examined. A final decision is expected in July 2008. There is no guarantee that the CRTC will issue a favourable decision.

CDN SERVICES

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, Bell Aliant 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 Bell 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 new CDN services were applied on a going-forward basis, as of the date of the decision, and Bell Canada and Bell Aliant will be relieved of some of their obligations from the deferral account for the revenue losses from this decision
- Bell Canada's and Bell Aliant's obligations under the deferral account also will be reduced for applying the lower rates retroactively for the CDN access components that were tariffed at interim rates prior to the decision.

On February 2, 2007 and February 15, 2007, the CRTC released Telecom Decisions 2007-6 and 2007-10 respectively, regarding matters unresolved in Telecom Decision 2005-6 pertaining to the terms and conditions of CDN services. In these decisions the CRTC determined that certain retail service components did not apply to CDN services. Bell Canada and Bell Aliant will be compensated through the deferral account for applying refunds retroactively, and for rate reductions on a going-forward basis.

FORBEARANCE FROM REGULATION OF LOCAL EXCHANGE SERVICES

On April 6, 2006, the CRTC issued Telecom Decision 2006-15, which established a framework for the forbearance from regulation of local exchange services. The decision denied Bell Aliant's application for regulatory forbearance in 32 exchanges in Nova Scotia and Prince Edward Island. The denial of Bell Aliant's forbearance application in respect of the Halifax market is the subject of an appeal to the Federal Court of Appeal by Bell Aliant. The Federal Court of Appeal granted Bell Aliant's leave to appeal the decision in an order dated September 22, 2006.

On May 12, 2006, Bell Canada, Bell Aliant, Saskatchewan Telecommunications and TELUS Communications Company (TELUS) filed a petition to the Governor-in-Council requesting that the Minister of Industry recommend to the Governor-in-Council that Decision 2006-15 be referred back to the CRTC for reconsideration. Specifically, the companies requested that the CRTC be directed to reconsider the pre-forbearance, forbearance and post-forbearance rules in Decision 2006-15 in light of the conclusions and recommendations contained in the Panel's final report, issued in March 2006.

On June 16, 2006, the CRTC issued Public Notice 2006-9, in which it sought comments regarding whether mobile wireless services, or a subset thereof, should be considered in the market share loss calculation for local forbearance analysis purposes.

On September 1, 2006, the CRTC issued Public Notice 2006-12, in which it sought comments regarding whether the 'transitional' market share loss threshold of 20% as a precondition to the repeal of the winback rule and the market share loss threshold of 25% for forbearance established in Decision 2006-15 are appropriate.

On October 5, 2006, TELUS applied to the CRTC to review and vary one of the forbearance criteria defined in Decision 2006-15. TELUS' application requests that the CRTC remove or amend the forbearance criterion requiring incumbent local exchange carriers to meet certain wholesale quality of service standards.

On December 11, 2006, the Minister of Industry announced a government proposal to change Decision 2006-15 to accelerate deregulation of retail prices of the incumbent telephone companies' local exchange services. The Minister has separately proposed amendments to the *Competition Act* to deter anticompetitive behaviour in the telecommunications industry. The proposed order to vary Decision 2006-15 establishes a forbearance test which (i) is based on the presence of competitors in geographic areas that are smaller and (ii) amends the forbearance criteria related to meeting certain quality of service indicators for incumbent local exchange carriers' wholesale services. The proposed order would also streamline the forbearance process and eliminate the winback and promotional restrictions in regulated and deregulated areas. The federal government is considering the comments received and must make a final determination by April 6, 2007.

In light of the federal government's proposal to change Decision 2006-15, the CRTC deferred its consideration of the issues in Public Notice 2006-9 and Public Notice 2006-12 and TELUS's review and vary application noted above pending a final determination with respect to the proposed order.

Although the proposed changes to Decision 2006-15 are positive for us, there can be no guarantee that the order will be issued or that the order will not be amended prior to its issuance. Furthermore, there is no guarantee that the outcomes of any of these proceedings will improve the likelihood that, or speed with which, Bell Canada and Bell Aliant will be granted forbearance regarding local exchange services.

WINBACK RULES

On April 6, 2006, the CRTC issued decisions relating to winbacks, namely Telecom Decision 2006-15 and Telecom Decision 2006-16.

In Decision 2006-15, the CRTC reduced the length of the no-winback period for residential subscribers to three months from 12 months. Under the amended winback rule, incumbent telephone companies are now precluded from contacting former residential and business local exchange service customers from the time of the local service request until three months after their local service is transferred to a competitor. In Decision 2006-15 the CRTC also ruled that incumbent telephone companies may apply to have the winback rule repealed in any local market where they have lost 20% of market share and in which they have met the relevant competitor quality of service indicators in the three months preceding the date of the application.

In Decision 2006-16, the CRTC determined that the winback rule is constitutional because it is justifiable under the Canadian Charter of Rights and Freedoms. The CRTC also decided that, going forward, incumbent telephone companies are now permitted to market non-residential local telecommunications services to a former local exchange customer during, and following, the three month no-winback period if that customer did not switch those other services to the competitor at the same time they migrated their local service.

Following applications filed by Bell Canada, Bell Aliant, SaskTel and TELUS, the Federal Court of Appeal granted leave to appeal these decisions on the constitutionality issue in an Order dated September 22, 2006. Bell Canada's and Bell Aliant's flexibility to compete may continue to be encumbered if the Federal Court of Appeal determines that the winback rule is constitutional.

On May 18, 2006, the CRTC released Telecom Decision 2006-28, *Regulatory Issues Related to the Implementation of Wireless Number Portability*. In that decision, the CRTC confirmed that the winback restrictions on incumbent telephone companies do not apply to a wireline-to-wireless port request by a customer in the context of wireless number portability such that there will be no restrictions on the ability of either Bell Canada or Bell Mobility to contact a wireline or wireless customer who has transferred to a competitor.

As indicated in the section entitled *Forbearance from Regulation of Local Exchange Services* , on December 11, 2006, the Minister of Industry announced a government proposal to change Telecom Decision 2006-15 to, among other things, eliminate the winback and promotional restrictions in regulated and deregulated areas.

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 providers 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.

In Telecom Decision 2006-28, *Regulatory Issues Related to the Implementation of Wireless Number Portability – Follow-Up to Public Notice 2006-3*, issued on May 18, 2006, the CRTC made a number of policy determinations covering a wide range of implementation issues and requested that three CRTC interconnection steering committee working groups undertake various tasks and file reports with the CRTC. In Telecom Decision 2006-74, issued on November 22, 2006, the CRTC approved with one change the consensus reports. In an application dated May 12, 2006, Bell Canada requested that it be allowed to recover wireline costs related to the implementation of wireless number portability through a draw down from Bell Canada's deferral account. Bell Canada filed reply comments on June 26, 2006. The CRTC has requested further information from Bell Canada on its application and responses were filed on December 4, 2006. There is no guarantee that the CRTC will issue a favourable 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.

In the 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 $18 million. It is not expected that Bell Canada will be required to pay any penalties related to retail quality of service for the period of January 1 to December 31, 2006.

The CRTC determined that Bell Aliant did not meet certain service standards during the period of January 1 to December 31, 2004. Bell Aliant applied to the CRTC for an exclusion from having to pay a penalty in 2004, as well as in 2005, due to below-standard service results caused by its labour disruption in 2004. In Telecom Decision 2006-27, which was issued on May 16, 2006, the CRTC determined that the labour disruption was partially, but not totally, beyond the control of Bell Aliant. In total, Bell Aliant was directed to provide customer credits totalling $3.5 million on its customers' monthly bills starting no later than June 16, 2006. These customer credits have been applied.

At the same time, Bell Aliant has filed with the CRTC an application to review and vary Telecom Decision 2005-17, as applied in Decision 2006-27, to indicate that when quality of service is negatively affected by a labour stoppage, the CRTC will impose penalties only where a telephone company has been found to have violated labour relations law or policy, or where it has deliberately sacrificed quality of service to increase profits. The application also seeks a remedial order to recover the cost of the credits already provided to customers. It is likely that the CRTC will not deal with Bell Canada's December 5, 2005 application until it reaches a decision on Bell Aliant's review and vary application. Furthermore, the Federally Regulated Employers – Transportation and Communications (FETCO), a national organization representing employers and employer associations across Canada, filed a petition with the Governor-in-Council to vary or rescind Telecom Decision 2006-27 on the basis that it oversteps the CRTC's jurisdiction and puts at risk well-balanced and well-defined Canadian labour relations policies and law.

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). 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 CSA involving 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 and the CSA is not part of a practice designed to circumvent tariffs.

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

BELL EXPRESSVU

In November 2006, the CRTC held a public hearing to review certain aspects of the regulatory framework for over-the-air broadcasters. Among the issues addressed was the possibility of requiring cable and satellite operators to pay over-the-air broadcasters for the right to carry their signals. Under the current copyright and regulatory framework, the broadcasters are not compensated by cable and satellite operators for distribution of their signals. Bell ExpressVu, along with the cable operators, argued vigorously against a fee-for-carriage regime. A decision from the CRTC requiring cable and satellite operators to pay over-the-air broadcasters could have a negative effect on our business and results of operations. A decision is expected in the second quarter of 2007.

In December 2006, the Federal Court of Canada ruled that the licence fees, levied by the CRTC to recover Industry Canada costs associated with broadcasting spectrum management and paid by broadcasters and broadcast distributors, are an illegal tax. These fees represent 1.365% of Bell ExpressVu's annual revenue. The Court's decision is being appealed by the federal government and the Canadian Association of Broadcasters.

LICENCES

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 we 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 us.

WIRELESS AND RADIO TOWERS

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. However, there has been no recent activity on this issue and 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 our operations.

MOBILE SPECTRUM

On February 16, 2007, Industry Canada initiated a consultation that could result in the licensing of additional mobile spectrum for advanced wireless services in the 1.6, 1.7 and 2.1 GHz bands. The consultation could also make an additional 10 MHz of PCS spectrum available in the 1.9 GHz band. In total, the consultation could make

105 MHz of spectrum available, to be licensed through a competitive spectrum auction likely occurring in early 2008. The consultation seeks comments on a variety of policy and technical issues related to the spectrum, including whether any of the spectrum should be set aside for new entrants. Industry Canada is also seeking comments on whether spectrum caps could be used as an alternative method of facilitating new competitive entry into the Canadian wireless market. Furthermore, Industry Canada is seeking comments concerning the policies related to wireless antennae towers, and whether digital roaming should be mandated among all carriers. The adoption of such measures would strongly facilitate the introduction of new competitor(s) into the Canadian wireless market and would heighten the degree of competition in the already highly competitive wireless segment. Comments are due to be filed with Industry Canada by May 25, 2007 with reply comments due by June 27, 2007.

Assumptions and Risks Underlying Our Forward-Looking Statements

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS

Forward-looking statements for 2007 made in BCE's 2006 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 for 2007 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.

Canadian Economic Assumptions

- Canadian GDP growth – essentially in line with GDP growth in 2006, consistent with estimates set by the Conference Board of Canada
- Canadian business prime rate and Consumer Price Index (estimated by Statistics Canada) – to decline from their 2006 year-end levels.

Canadian Market Assumptions

- revenue growth in the overall Canadian telecommunications market – in line with expected Canadian GDP growth
- residential wireline voice services revenues – to continue to decrease due to wireless substitution, competition from cable companies and other factors such as e-mail and instant messaging substitution
- intense wireline competition in both the business and residential telecommunications markets – to continue mainly from cable companies
- growth in revenues for the Canadian wireless and video markets – similar to the rate of growth in 2006
- growth in revenues for the Canadian Internet market – slightly lower than the rate of growth in 2006.

Operational and Financial Assumptions

Operational

- growth in the number of our wireless, video and high-speed Internet subscribers as well as higher ARPU for these services
- the rate of losses in our residential NAS to stabilize compared to 2006.

Financial

Financial assumptions applicable to BCE Inc. include the following:

- the incurrence of restructuring costs related to employee reductions in certain areas of the business and staff relocations to reduce the level of leased office space
- the increase in amortization expense as a result of capital spending that has been higher than asset retirements over the past few years
- BCE's effective tax rate to increase as the 2006 effective tax rate benefited from one-time adjustments that are not applicable in 2007
- no significant escalation in cash taxes as we accelerate the use of Bell Canada's research and development tax credits.

In addition, financial assumptions applicable to Bell Canada (excluding Bell Aliant) include the following:

- total net benefit plans cost to decrease mainly as a result of improved returns on plan assets and changes to benefit plans
- funding of our total net benefit plans to decrease due to improved returns on plan assets and contributions made in 2006
- capital intensity targeted at levels similar to 2006
- further productivity improvements related to internal process redesign and supply transformation initiatives.

Assumptions about Transactions

- BCE Inc. to repurchase up to 5% of its common shares under its previously announced NCIB.
- BCE Inc. to close the previously announced sale of Telesat in mid-2007.

RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

This section describes the principal risks that could affect our business and results, in addition to those described elsewhere in this MD&A, including, in particular, those previously described under *Competitive Environment* and *Regulatory Environment*.

A risk is the possibility that an event might happen in the future that could have a negative effect on our financial condition, results of operations or business. Part of managing our business is to understand what these potential risks could be and to mitigate them where we can (see *Risk Management Practices* below).

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.

As a result of BCE Inc.'s strategy of concentrating on Bell Canada's communications business and the recently completed and announced dispositions of BCE Inc.'s non-core assets, BCE Inc.'s financial performance now depends on how well Bell Canada performs financially. Accordingly, the risk factors described in this MD&A mainly relate to the operations and businesses of Bell Canada and its subsidiaries and joint ventures.

Economic and Market Conditions

Our business is affected by general economic conditions, consumer confidence and spending, as well as the demand for, and prices of, our products and services. If there is a decline in economic growth and in retail and commercial activity, there could be a lower demand for our products and services. During these periods, customers may delay buying our products and services, reduce purchases or discontinue using them.

Weak economic conditions could lower our profitability and reduce cash flows from operations. They also could 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.

Strategies and Plans

We continue to implement our strategy of delivering unrivalled integrated communications services to our customers across Canada.

Our strategic direction requires us to continue to transform our cost structure and the way in which we serve customers in the context of the competitive and regulatory environment previously described. This means we will need to continue to:

- respond by adapting to these changes and making 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.

Transforming Our Cost Structure and Containing Capital Intensity

Our strategies and operating priorities, along with mandated price reductions, require us to continue to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures. Our objectives for cost reduction/productivity improvements continue to be aggressive and there is no assurance that we will be successful in reducing costs. There will be a material and negative effect on our profitability if we do not successfully maintain the quality of our service while managing our capital expenditures and implementing these cost reduction initiatives and productivity improvements.

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 ARPU. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either or both 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. 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 financial performance targets.

We may face additional 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.

We are in the process of moving traffic on our core circuit-based infrastructure to IP technology. As part of this move, we 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 we cannot discontinue these services as planned, we 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. New products or services that use new or evolving technologies could reduce demand for our existing offerings or cause prices to fall.

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. In addition, we have outsourced certain services to providers that operate outside of Canada. Although we have redundancy and network monitoring systems in place, a major natural disaster that affects the regions in which our service providers operate, or other events adversely affecting the business or operations of such service providers, could have a material and negative effect on our service levels.

Cisco Systems Inc. (Cisco) recently issued three security advisories that may affect certain of our customers with Cisco routers running on the Internetwork Operating System. Bell Canada is working closely with Cisco to mitigate potential effects of these vulnerabilities.

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 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.

Renegotiating Labour Agreements

Approximately 46% 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 or other work disruption occurs it would not adversely affect service to our 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.

The collective agreements between the CEP and Expertech representing approximately 160 clerical and 1,300 craft and services employees both expired on November 30, 2006. The parties have been in negotiations since November 2006. A first offer by Expertech was rejected by both bargaining units' employees on December 20, 2006.

On February 26, 2007, the craft and services employees rejected Expertech's final offer at 64.5% whereas its clerical employees accepted the offer at 78.3%. Expertech's craft and services employees will only obtain their right to strike if and once the CEP gives 72 hour notice to Expertech indicating the date after which a strike will occur.

As a result of this vote, Expertech declared it was unable to restructure its operations and announced the wind-down of its operations. Bell Canada announced that it would work with Expertech toward an orderly and timely wind-down of its activities and would transfer its work to many local suppliers in Québec and Ontario.

On March 5, 2007, the CEP and Expertech announced that an agreement had been reached on some refinements to Expertech's final offer that, if accepted by union members, would allow Expertech to avoid closure. This offer has been put to a vote by the craft and services employees. The results will be announced on March 19, 2007.

As part of the bargaining process, the CEP filed, in December 2006, a single employer and a sale of business application before the Canada Industrial Relations Board (CIRB) against Bell Canada and Expertech. Hearings are scheduled in May and June 2007. Should the CEP be successful with these applications, Bell Canada could be bound by the collective agreements now covering Expertech's employees.

An arbitration decision was received by Expertech in December 2006 under which it was ordered to make the Bell Canada 2004 VER program available to all employees covered by the craft and services collective agreement.

The following important collective agreements will expire in 2007:

- the collective agreement between Bell Canada and the CEP representing approximately 6,000 craft and services employees will expire on November 30, 2007
- the collective agreement between Bell Aliant and the CEP representing approximately 660 craft and services employees in Québec and Ontario will expire on November 30, 2007
- the collective agreement between Bell Aliant and the CEP representing approximately 3,500 craft employees, clerical employees and operators in the four Atlantic provinces will expire on December 31, 2007.

Epidemics and Pandemics and Other Health Risks

Epidemics (e.g. SARS) and pandemics, as well as other health risks, could occur and impact our operations. Our operations depend on timely replacement and maintenance of our networks and equipment (refer to *Events Affecting Our Networks* above) and our ability to service our customers. In certain aspects of our solution delivery we rely on third parties for services. Should an influenza pandemic occur it is possible that we would be unable to maintain the network and service our customers in a timely manner, resulting in an interruption or failure of certain of our normal business functions or operations, which could have a material adverse effect on our results of operations, liquidity or financial condition. We are taking appropriate prudent measures to mitigate these risks.

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 our business. 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 could have a material and negative effect on our wireless business.

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 our wireless business.

Bell ExpressVu

Bell ExpressVu currently uses four satellites – Nimiq 1, Nimiq 2, Nimiq 3 and Nimiq 4-Interim – for its video services. An additional satellite has been leased and is expected to be brought into service in the second quarter of 2007 to replace Nimiq 4-Interim, which is close to the end of its use. Telesat, a subsidiary of BCE Inc., operates or directs the operation of these satellites.

Satellites are subject to significant risks (refer to the section below entitled *Telesat* for more details concerning such 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 will require additional satellite capacity to meet the bandwidth requirements for additional high definition (HD) channels in the future. Bell ExpressVu has supported Telesat's application to Industry Canada for additional satellite spectrum licences to facilitate the additional satellite capacity. If Telesat is unsuccessful in obtaining such additional spectrum licences, Bell ExpressVu may not have access to the necessary satellite capacity to launch the number of HD channels contemplated by its business plan, which could have a material and negative effect on Bell ExpressVu's business.

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, they are 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 the business of Bell ExpressVu and Bell Canada.

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. The smart card swap was introduced in phases and was completed in July 2005. 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*. This decision has been overruled by the Québec

Superior Court and the Québec Court of Appeal has upheld the Superior Court's decision. The defendants are now seeking leave to appeal to the Supreme Court of Canada. Should leave to appeal be granted and should the ruling of the Québec Court of Appeal be overruled by the Supreme Court of Canada and Parliament does not enact new provisions criminalizing the unauthorized reception of satellite signals, Bell ExpressVu could face increasing loss of revenue from the unauthorized reception of satellite signals.

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 (including accounts receivable).

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 or meet our financial obligations. Business acquisitions could also lower our credit ratings and have similar adverse consequences.

Our ability to raise financing depends on our ability to access the capital markets and the syndicated commercial loan market. The cost and amount of funding depend 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 and the amount of funding available could be reduced. 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 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, payment of our contractual obligations, including repayment of our outstanding debt, payment of dividends to shareholders and share buybacks.

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
- limit the size of our share buyback program
- 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.

On December 18, 2006, BCE Inc. announced the sale of its satellite services subsidiary Telesat. BCE Inc.'s 2007 financial plan assumes completion of the above-mentioned sale of Telesat. However, this transaction will take several months to complete and remains subject to a number of approvals and closing conditions, including approval by Industry Canada and the United States Federal Communications Commission and other closing conditions that are customary in a transaction of this nature, including the absence of a material adverse change affecting Telesat's business and the ability of the purchaser to draw on its committed financing to raise the proceeds needed to pay BCE Inc. BCE Inc.'s inability to complete the proposed transaction would have an adverse effect on its liquidity and 2007 financial plan.

Litigation, Regulatory Matters and Changes in Laws

Regulatory initiatives or proceedings and pending or future litigation, including the increase in 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. These include changes in tax laws or the adoption of new tax laws that result in higher tax rates or new taxes. They also include recent amendments to the securities laws of certain provinces of Canada which introduced statutory civil liability for misrepresentations in continuous disclosure.

For a description of the principal legal proceedings involving us, please refer to the BCE 2006 AIF under the heading *Legal Proceedings we are involved in*.

For a description of certain regulatory initiatives and proceedings affecting us, please see the section entitled *Regulatory Environment*.

Pension Fund Contributions

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
- changes in pension regulations.

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.

BCE Inc.'s Sources of Income and Assets

BCE Inc. has no material sources of income or assets of its own, other than the interests that it has in its subsidiaries, joint ventures and significantly influenced companies, including its ownership of all of the outstanding common shares of Bell Canada. BCE Inc.'s cash flow and, consequently, its ability to service its indebtedness and to pay dividends on its equity securities are therefore dependent upon the ability of its subsidiaries, joint ventures and significantly influenced companies to pay dividends or otherwise make distributions to it. As a result of BCE Inc.'s strategy of focusing on its communications business, the business of Bell Canada now represents, and is expected in the future to continue to represent, substantially all of BCE Inc.'s business and investment activity. Therefore, BCE Inc.'s financial performance is, and is expected to continue to be, dependent on the operations and financial performance of Bell Canada. BCE Inc.'s subsidiaries, joint ventures and significantly influenced companies are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any dividends or make any other distributions to BCE Inc. In addition, any right of BCE Inc. to receive assets of its subsidiaries, joint ventures and significantly influenced companies upon their liquidation or reorganization will be structurally subordinated to the prior claims of creditors of such subsidiaries, joint ventures and significantly influenced companies.

Dividend Policy

On December 12, 2006, BCE Inc. announced the establishment of a dividend policy based on a target dividend payout percentage range of earnings per share before net gains (losses) on investments and restructuring costs. However, based on the prevailing competitive and technological environment at any given time, there can be no guarantee that BCE Inc.'s dividend policy will be maintained. Refer to the sections above entitled *Anticipating Technological Change and Investing in New Technologies, Products and Services* and *Liquidity* as well as to the section entitled *Competitive Environment* for more information on these risks and their potential impact on our businesses, revenues, cash flows and capital expenditures, which in turn could adversely affect BCE Inc.'s ability to maintain its dividend policy.

Bell Aliant Cash Distributions and Tax Treatment of Income Trusts

Although Bell Aliant intends to make cash distributions to its unitholders, including BCE, there can be no guarantee regarding the amounts of these cash distributions, which may fluctuate with Bell Aliant's performance. Bell Aliant also has the discretion to establish cash reserves for the proper conduct of its business which would reduce the amount of cash otherwise available for distributions in that year. Accordingly, there can be no assurance regarding the actual levels of distributions by Bell Aliant.

On October 31, 2006, the federal government announced significant changes to the tax treatment of income trusts. Effective in 2011, income trusts that were publicly traded before November 2006, like Bell Aliant, will be subject to taxation at corporate tax rates and certain distributions to unitholders will be taxed like dividends received from a corporation. All else being equal, the taxation of income trusts at corporate tax rates may result in less cash being available to pay distributions by Bell Aliant. The federal government specified at that time that while there was no intention to prevent existing income trusts from normal growth during the transitional period, any undue expansion of an existing income trust before 2011 would make the new rules effective immediately.

On December 15, 2006, the federal government issued a release clarifying what would be considered undue expansion. In that release, the government stated that it would not recommend any change to the 2011 effective date in respect of any existing income trust whose equity

capital grew as a result of issuances of new equity in any of the intervening periods by an amount that did not exceed the greater of $50 million and a safe harbour amount. The safe harbour amount is to be measured by reference to an income trust's market capitalization as of the end of trading on October 31, 2006. Market capitalization is to be measured in terms of the value of an income trust's issued and outstanding publicly traded units. For this purpose, it would not include debt (whether or not that debt carried a conversion right or was itself publicly traded), options or other interests that were convertible into units of the income trust. For the period from November 1, 2006 to the end of 2007, an income trust's safe harbour will be 40% of that October 31, 2006 benchmark. An income trust's safe harbour for each of the 2008 through 2010 calendar years will be 20% of that benchmark, allowing cumulative growth of up to 100% over the four-year transition period. The release also indicated that the merger of two or more income trusts, each of which was publicly traded on October 31, 2006, or a reorganization of such an income trust, would not be considered growth to the extent that there was no net addition to equity as a result of the merger or reorganization. Based on the release, the privatization of Bell Nordiq Income Fund and the proposed acquisition of Amtelecom Income Fund should not represent 'undue expansion'. The release also indicated that conversions of income trusts back to corporations would be allowed to take place without any tax consequences to investors.

Based on the government announcements to date, it is anticipated that distributions will be impacted by taxation in 2011 or earlier if it is determined that Bell Aliant has experienced undue expansion prior to 2011.

However, the exact legislation that will implement the release has not been made public so there is uncertainty as to the reach and application of this announcement. It is therefore possible that the anticipated new tax measures for existing income trusts may be different from what was announced and which could result in, amongst other things, the earlier application of these measures.

Stock Market Volatility

Differences between BCE Inc.'s actual or anticipated financial results and the published expectations of financial analysts may contribute to volatility in BCE Inc.'s securities. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of BCE Inc.'s securities, may materially and negatively affect our ability to raise capital, issue debt, make strategic acquisitions or enter into joint ventures.

Acquisitions and Dispositions

Our business plans include 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 partner with, or that we will have the financial resources needed to complete any acquisition or 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.

Telesat

Satellite Industry Risks

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 that could reduce the satellites' commercial lives. Acts of war or terrorism, magnetic, electrostatic or solar storms, and space debris or micrometeoroids could also damage Telesat's satellites. Any single anomaly or series of anomalies or other failure (whether full or partial) of one of Telesat's satellites could cause its revenues, cash flows and backlog to decline materially, could require Telesat to repay prepayments made by customers of the affected satellite and could materially and adversely affect its relationships with current customers and its ability to attract new customers for satellite services. A failure could result in a customer terminating its contract for service on the affected satellite.

Launch Failures

Satellites are subject to certain risks related to failed launches. Launch vehicles may fail resulting in significant delays in the deployment of satellites because of the need to construct replacement satellites, which typically takes up to 30 months or longer, and to obtain another launch vehicle. Such significant delays could materially and adversely affect operations, revenues, cash flows and backlog.

Construction and Launch Delays

The launch of satellites is subject to certain delays. Launch delays can result from delays in the construction of satellites and launch vehicles, the periodic unavailability of reliable launch opportunities, possible delays in obtaining regulatory approvals and launch failures. If satellite construction schedules are not met, a launch opportunity may not be available at the time the satellite is ready to be launched. Delays in the commencement of service could enable customers who have contracted for transponder capacity to terminate their contracts, could affect plans to replace an in-orbit satellite prior to the end of its useful life, could result in the expiration or cancellation of launch insurance and could result in the loss of orbital rights. The failure to implement a satellite deployment plan on schedule could have a material adverse effect on Telesat's financial condition and results of operations.

Market for Satellite Insurance

Telesat's current satellite insurance does not protect it against all satellite-related losses that it may experience, and it does not have in-orbit insurance coverage for all of the satellites in its fleet. The insurance will not protect Telesat against business interruption, lost revenues or delay of revenues. To the extent Telesat experiences a launch or in-orbit failure that is not fully insured, or for which insurance proceeds are delayed or disputed, it may not have sufficient resources to replace the affected satellite.

RISK MANAGEMENT PRACTICES

BCE Inc.'s audit committee (Audit Committee) is responsible for the oversight of our risk management processes. Such processes are designed to manage, rather than eliminate, the risk of failure to achieve our business objectives. The Audit Committee also takes into account significant social, environmental and ethical matters that relate to our business and reviews annually our corporate social responsibility program.

We have enterprise-wide risk assessment processes which incorporate the internal control and enterprise risk management frameworks of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Risk assessment and evaluation is an important part of the annual business planning cycle. In developing their annual plans, BCE's business units identify and assess significant risks to the achievement of their business objectives and where necessary develop mitigation plans. The risk information generated is reviewed with senior management and BCE Inc.'s board of directors in evaluating the business plans for each of the business units and the company as a whole. The Internal Audit group plans its annual activities employing a risk-based review of internal control processes in the company. Throughout the year the Internal Audit group carries out continuing assessments of the quality of controls. On a quarterly basis the Internal Audit group reports to the Audit Committee on the status of adherence to our internal control policies and on areas identified for specific improvement. The Internal Audit group also promotes effective risk management in our lines of business.

The Audit Committee considers the effectiveness of the operation of our internal control procedures, reviewing reports from the Internal Audit group and BCE Inc.'s external auditors. The Audit Committee reports its conclusions to BCE Inc.'s board of directors.

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 generally accepted accounting principles (GAAP). Other significant accounting policies, not involving the same level of measurement uncertainty as those discussed in this section, are nevertheless important to an understanding of our financial statements. Estimates related to revenues, allowance for doubtful accounts, useful lives of capital assets, asset impairments, inventory reserves, employee compensation plans, evaluation of minimum lease terms for operating leases, and business combinations require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. There were no significant changes to the estimates we made in the past two years. See Note 1 to the consolidated financial statements for more information about the accounting principles we used to prepare our financial statements.

CRITICAL ACCOUNTING ESTIMATES

As required under Canadian GAAP, we make estimates when we account for and report assets, liabilities, revenues and expenses, and disclose contingent assets and liabilities in our financial statements. We are also required to regularly evaluate the estimates that we make.

We base our estimates on a number of factors, including historical experience, current events and actions that we may undertake in the future, and other assumptions that we believe are reasonable based on information available at the time they are made. Given the inherent uncertainty involved in making estimates, actual results reported in future periods could differ from these estimates.

We consider the estimates described in this section to be an important part of understanding our financial statements because they require management to make assumptions about matters that are highly uncertain at the time the estimate was made and changes to these estimates could have a material impact on our financial statements.

Our senior management has discussed the development and selection of the critical accounting estimates described in this section with the Audit Committee of our board of directors. The Audit Committee has reviewed these critical accounting estimates.

Any sensitivity analysis included in this section should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

Employee Benefit Plans

We maintain defined benefit plans that provide pension and other post-employment benefits for most 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.

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, trends in health-care costs 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 costs.

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

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.

We determine the appropriate discount rate at the end of every year. Our discount rate was 5.3% at December 31, 2006, an increase from 5.2% at December 31, 2005. The following table shows the impact of a 0.5% increase and a 0.5% decrease in the discount rate on the net benefit plans cost for 2007 and the accrued benefit asset at December 31, 2007.

	IMPACT ON NET BENEFIT PLANS COST FOR 2007	IMPACT ON ACCRUED BENEFIT ASSET AT DECEMBER 31, 2007
Discount rate increased to 5.8%		
Residential	(35)	35
Business	(38)	38
Bell Aliant	(23)	23
Other Bell Canada	(8)	8
Other BCE	(1)	1
Total	(105)	105
Discount rate decreased to 4.8%		
Residential	36	(36)
Business	38	(38)
Bell Aliant	23	(23)
Other Bell Canada	8	(8)
Other BCE	6	(6)
Total	111	(111)

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 cash contributions to the plan.

Expected Long-Term Rate of Return

The expected long-term rate of return is a weighted average rate 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 2006, which is the same as it was in 2005. The following table shows the impact of a 0.5% increase and a 0.5% decrease in the expected rate of return on plan assets on the net benefit plans cost for 2007 and the accrued benefit asset as at December 31, 2007.

	IMPACT ON NET BENEFIT PLANS COST FOR 2007	IMPACT ON ACCRUED BENEFIT ASSET AT DECEMBER 31, 2007
Expected rate of return increased to 8.0%		
Residential	(23)	23
Business	(25)	25
Bell Aliant	(15)	15
Other Bell Canada	(5)	5
Other BCE	(3)	3
Total	(71)	71
Expected rate of return decreased to 7.0%		
Residential	23	(23)
Business	25	(25)
Bell Aliant	15	(15)
Other Bell Canada	5	(5)
Other BCE	3	(3)
Total	71	(71)

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 cash contributions to the plan.

Goodwill Impairment

We assess goodwill impairment of individual reporting units in the fourth quarter of every year and when events or changes in circumstances indicate that goodwill might be impaired.

We generally measure for impairment using a projected discounted cash flow method and confirm our assessment using other valuation methods. If the carrying value of a reporting fair value, a valuation of the entire reporting unit is carried out to determine the fair value of all its assets and liabilities, including goodwill, as if we had acquired the reporting unit. If the carrying value of the reporting unit's 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 numbers of years used in the cash flow model, the discount rate and 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 each 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 2006 or 2005.

Contingencies

We become involved in various litigation and regulatory matters as a 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.

We accrue a potential loss if we believe the loss is probable and it 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, 2006. 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 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. Adopting this section did not have a material effect on our consolidated financial statements.

FUTURE CHANGES TO ACCOUNTING STANDARDS

Accounting Changes

The CICA issued section 1506 of the CICA Handbook, *Accounting Changes*, which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors. These changes came into effect as of January 1, 2007.

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. Comprehensive income is the change in our net assets that results from transactions, events and circumstances from sources other than 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
- gains and losses on cash flow hedges.

The CICA also made related changes to section 3250 of the CICA Handbook, *Surplus* (reissued as section 3251, *Equity*) and section 1650 of the CICA Handbook, *Foreign Currency Translation* (reissued as section 1651, *Foreign Currency Translation*).

Effective January 1, 2007, we report accumulated other comprehensive income and its components in the consolidated financial statements.

The effect of adopting this section on January 1, 2007 was not significant.

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 derivatives.

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 amortized cost.
- 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.

The effect of adopting this section on January 1, 2007 was not significant.

Hedges

The CICA issued section 3865 of the CICA Handbook, *Hedges*, which describes how and when hedge accounting can be used.

Hedging is an activity used 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.

Under hedge accounting, 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.

The effect of adopting this section on January 1, 2007 was not significant.

Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to management, including BCE Inc.'s Presidents and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure.

As of December 31, 2006, an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the *U.S. Securities Exchange Act of 1934* and under *Multilateral Instrument 52-109*, was carried out under the supervision of and with the participation of management, including the President and CEO and the CFO. Based on that evaluation, the President and CEO and the CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006 and ensure that information is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the *U.S. Securities Exchange Act of 1934* and under *Multilateral Instrument 52-109*. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management evaluated the design and operation of our internal control over financial reporting as of December 31, 2006, based on the framework and criteria established in *Internal Control – Integrated Framework* issued by the COSO, and has concluded that our internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

No changes were made in our internal control over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, out internal control over financial reporting.

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.

EBITDA

The term EBITDA does not have any standardized meaning according to GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses with-out the effects of amortization expense, net benefit plans cost, and 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. 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 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 following tables are reconciliations of operating income to EBITDA on a consolidated basis for BCE and Bell Canada.

BCE	**2006**	2005
Operating income	**3,332**	3,759
Amortization expense	**3,129**	3,061
Net benefit plans cost	**513**	359
Restructuring and other items	**355**	55
EBITDA	**7,329**	7,234

BELL CANADA	**2006**	2005
Operating income	**3,353**	3,755
Amortization expense	**3,073**	2,989
Net benefit plans cost	**531**	389
Restructuring and other items	**332**	54
EBITDA	**7,289**	7,187

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 restructuring and other items does not imply they are necessarily non-recurring.

The most comparable Canadian GAAP financial measure is operating income. The following tables are reconciliations of operating income to operating income before restructuring and other items on a consolidated basis for BCE and Bell Canada.

BCE	**2006**	2005
Operating income	**3,332**	3,759
Restructuring and other items	**355**	55
Operating income before restructuring and other items	**3,687**	3,814

BELL CANADA	**2006**	2005
Operating income	**3,353**	3,755
Restructuring and other items	**332**	54
Operating income before restructuring and other items	**3,685**	3,809

NET EARNINGS BEFORE RESTRUCTURING AND OTHER ITEMS, NET GAINS ON INVESTMENTS, AND COSTS INCURRED TO FORM BELL ALIANT

The term net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant 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, net gains on investments and costs incurred to form Bell Aliant, among other measures, to assess the operating performance of our ongoing businesses without the effects of restructuring and other items, net gains on investments and costs incurred to form Bell Aliant. 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, net gains on investments and costs incurred to form Bell Aliant on a consolidated basis and per BCE Inc. common share.

	2006		2005	
	TOTAL	PER SHARE	TOTAL	PER SHARE
Net earnings applicable to common shares	**1,937**	**2.25**	1,891	2.04
Restructuring and other items (1)	**222**	**0.26**	37	0.04
Net gains on investments (2)	**(525)**	**(0.61)**	(27)	(0.03)
Other costs incurred to form Bell Aliant (3)	**42**	**0.05**	—	—
Net earnings before restructuring and other items, net gains on investments, and costs incurred to form Bell Aliant	**1,676**	**1.95**	1,901	2.05

(1) Includes transaction costs associated with the formation of Bell Aliant. These costs relate mainly to investment banking, professional and consulting fees. In 2006, we incurred $138 million ($77 million after tax and non-controlling interest).

(2) Amounts for 2006 include the recognition of a future tax asset of $434 million, representing the tax-effected amount of approximately $2,341 million of previously unrecognized capital loss carryforwards as realization of the loss carryforwards now is more likely than not due to the anticipated gain on the sale of Telesat.

(3) Includes premium costs incurred by Bell Aliant on early redemption of long-term debt as a result of the formation of Bell Aliant. In 2006, we incurred $122 million ($42 million after tax and non-controlling interest).

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.

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 following table is a reconciliation of cash from operating activities to free cash flow on a consolidated basis.

	2006	2005
Cash from operating activities	**5,389**	5,337
Capital expenditures	**(3,133)**	(3,357)
Total dividends paid	**(1,546)**	(1,450)
Other investing activities	**(2)**	39
Free cash flow	**708**	569

Reports on Internal Control

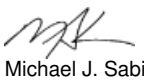
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of BCE Inc. (BCE) is responsible for establishing and maintaining adequate internal control over financial reporting under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

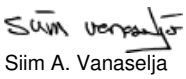
Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated the design and operation of BCE's internal control over financial reporting as of December 31, 2006, based on the framework and criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

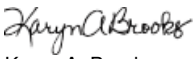
Management's assessment of the effectiveness of BCE's internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, Independent registered chartered accountants, who also audited BCE's consolidated financial statements for the year ended December 31, 2006. Deloitte & Touche issued an unqualified opinion on management's assessment of BCE's internal control over financial reporting and an unqualified opinion on the effectiveness of BCE's internal control over financial reporting.



Michael J. Sabia
President and Chief Executive Officer



Siim A. Vanaselja
Chief Financial Officer



Karyn A. Brooks
Senior Vice-President and Controller

March 7, 2007

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of BCE Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that BCE Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

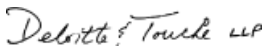
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated March 7, 2007 expressed an unqualified opinion on those financial statements.



Deloitte & Touche LLP
Independent Registered Chartered Accountants

Montréal, Canada
March 7, 2007

Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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, Independent Registered Chartered Accountants, have audited the financial statements.

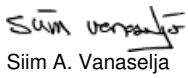
Management has prepared the financial statements according to generally accepted accounting principles. Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present 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.

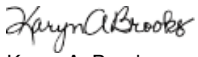
The board of directors has appointed an Audit Committee, which is made up of unrelated and independent directors. The Audit Committee's responsibilities include reviewing the financial statements and other information in this annual report, and recommending them to the board of directors for approval. You will find a description of the Audit Committee's other responsibilities on page 108 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
Senior Vice-President and Controller

March 7, 2007

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

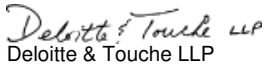
To the Board of Directors and Shareholders of BCE Inc.

We have audited the accompanying consolidated balance sheets of BCE Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, deficit and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the financial statements for the year ended December 31, 2006, we conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the financial statements for the years ended December 31, 2005 and 2004, we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of BCE Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.



Deloitte & Touche LLP
Independent Registered Chartered Accountants

Montréal, Canada
March 7, 2007

Consolidated Statements of Operations

FOR THE YEAR ENDED DECEMBER 31 *(in $ millions, except share amounts)*	NOTE	**2006**	2005	2004
Operating revenues		**17,713**	17,605	17,009
Operating expenses		**(10,384)**	(10,371)	(9,895)
Amortization expense	13, 14	**(3,129)**	(3,061)	(3,000)
Net benefit plans cost	25	**(513)**	(359)	(241)
Restructuring and other items	5	**(355)**	(55)	(1,219)
Total operating expenses		**(14,381)**	(13,846)	(14,355)
Operating income		**3,332**	3,759	2,654
Other (expense) income	6	**(176)**	28	439
Interest expense	7	**(952)**	(949)	(961)
Pre-tax earnings from continuing operations		**2,204**	2,838	2,132
Income taxes	8	**(85)**	(803)	(605)
Non-controlling interest		**(228)**	(201)	(132)
Earnings from continuing operations		**1,891**	1,834	1,395
Discontinued operations	9	**116**	127	129
Net earnings before extraordinary gain		**2,007**	1,961	1,524
Extraordinary gain	4	**—**	—	69
Net earnings		**2,007**	1,961	1,593
Dividends on preferred shares		**(70)**	(70)	(70)
Net earnings applicable to common shares		**1,937**	1,891	1,523
Net earnings per common share — basic	10			
Continuing operations		**2.12**	1.90	1.44
Discontinued operations		**0.13**	0.14	0.14
Extraordinary gain		**—**	—	0.07
Net earnings		**2.25**	2.04	1.65
Net earnings per common share — diluted	10			
Continuing operations		**2.12**	1.90	1.44
Discontinued operations		**0.13**	0.14	0.14
Extraordinary gain		**—**	—	0.07
Net earnings		**2.25**	2.04	1.65
Dividends per common share		**1.32**	1.32	1.20
Average number of common shares outstanding — basic (millions)		**861.4**	926.8	924.6

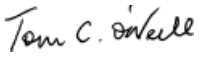
Consolidated Statements of Deficit

FOR THE YEAR ENDED DECEMBER 31 *(in $ millions)*	NOTE	**2006**	2005	2004
Balance at beginning of year		**(4,763)**	(5,432)	(5,845)
Net earnings		**2,007**	1,961	1,593
Dividends declared on preferred shares		**(70)**	(70)	(70)
Dividends declared on common shares		**(1,132)**	(1,222)	(1,110)
Excess of purchase price over stated capital of common shares cancelled and related contributed surplus	23	**(384)**	—	—
Other		**(1)**	—	—
Balance at end of year		**(4,343)**	(4,763)	(5,432)

Consolidated Balance Sheets

AT DECEMBER 31 *(in $ millions)*	NOTE	**2006**	2005
Assets			
Current assets			
Cash and cash equivalents		**581**	349
Accounts receivable	11	**1,868**	1,525
Other current assets	12	**1,233**	915
Current assets of discontinued operations	9	**2**	894
Total current assets		**3,684**	3,683
Capital assets	13	**22,079**	21,772
Other long-term assets	14	**2,816**	2,306
Indefinite-life intangible assets	15	**2,902**	2,899
Goodwill	16	**5,475**	5,966
Non-current assets of discontinued operations	9	**1**	3,856
Total assets		**36,957**	40,482
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	17	**3,236**	3,085
Interest payable		**165**	170
Dividends payable		**315**	343
Debt due within one year	18	**986**	1,161
Current liabilities of discontinued operations	9	**—**	828
Total current liabilities		**4,702**	5,587
Long-term debt	19	**11,867**	11,855
Other long-term liabilities	20	**4,841**	4,807
Non-current liabilities of discontinued operation	9	**—**	614
Total liabilities		**21,410**	22,863
Non-controlling interest	2, 21	**2,180**	2,898
Commitments and contingencies	26		
Shareholders' Equity			
Preferred shares	23	**1,670**	1,670
Common shareholders' equity			
Common shares	2, 23	**13,487**	16,806
Contributed surplus	2, 23	**2,555**	1,081
Deficit		**(4,343)**	(4,763)
Currency translation adjustment		**(2)**	(73)
Total common shareholders' equity		**11,697**	13,051
Total shareholders' equity		**13,367**	14,721
Total liabilities and shareholders' equity		**36,957**	40,482

On behalf of the board of directors:



Director



Director

Consolidated Statements of Cash Flows

FOR THE YEAR ENDED DECEMBER 31 *(in $ millions)*	NOTE	**2006**	2005	2004
Cash flows from operating activities				
Earnings from continuing operations		**1,891**	1,834	1,395
Adjustments to reconcile earnings from continuing operations to cash flows from operating activities:				
Amortization expense		**3,129**	3,061	3,000
Net benefit plans cost	25	**513**	359	241
Restructuring and other items	5	**355**	55	1,219
Net losses (gains) on investments	6	**26**	(38)	(351)
Future income taxes		**(13)**	719	(79)
Non-controlling interest		**228**	201	132
Contributions to employee pension plans	25	**(172)**	(206)	(95)
Other employee future benefit plan payments	25	**(96)**	(93)	(81)
Payments of restructuring and other items		**(225)**	(171)	(251)
Operating assets and liabilities	28	**(247)**	(384)	138
Cash flows from operating activities		**5,389**	5,337	5,268
Cash flows from investing activities				
Capital expenditures		**(3,133)**	(3,357)	(3,272)
Business acquisitions	4	**(71)**	(228)	(1,118)
Business dispositions		**—**	—	2
Bell Aliant Regional Communications Income Fund (Bell Aliant)	2	**(255)**	—	—
Increase in investments		**(304)**	(233)	(57)
Decrease in investments		**64**	17	711
Other investing activities		**(2)**	39	183
Cash flows used in investing activities		**(3,701)**	(3,762)	(3,551)
Cash flows from financing activities				
(Decrease) increase in notes payable and bank advances		**(57)**	(69)	90
Issue of long-term debt		**4,392**	1,095	461
Repayment of long-term debt		**(4,767)**	(1,073)	(1,691)
Issue of common shares	23	**29**	25	32
Repurchase of common shares	23	**(1,241)**	—	—
Issue of equity securities by subsidiaries to non-controlling interest		**13**	1	8
Redemption of equity securities by subsidiaries from non-controlling interest		**(305)**	(78)	(25)
Cash dividends paid on common shares		**(1,169)**	(1,195)	(1,108)
Cash dividends paid on preferred shares		**(84)**	(86)	(85)
Cash dividends/distributions paid by subsidiaries to non-controlling interest		**(293)**	(169)	(179)
Other financing activities		**(157)**	(64)	(74)
Cash flows used in financing activities		**(3,639)**	(1,613)	(2,571)
Cash used in continuing operations		**(1,951)**	(38)	(854)
Cash provided by discontinued operations	9	**2,087**	103	512
Net increase (decrease) in cash and cash equivalents		**136**	65	(342)
Cash and cash equivalents at beginning of year		**445**	380	722
Cash and cash equivalents at end of year		**581**	445	380
Consists of:				
Cash and cash equivalents of continuing operations		**581**	349	298
Cash and cash equivalents of discontinued operations	9	**—**	96	82
Total		**581**	445	380
Income taxes paid (net of refunds)		**199**	206	148
Interest paid		**874**	899	916

Notes to 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.

Except in the auditors' report, we*,* us*,* our *and* BCE *mean BCE Inc., its subsidiaries and joint ventures. References to Bell Aliant include matters relating to, and actions taken by, both Aliant Inc. (Aliant) prior to July 7, 2006, and Bell Aliant Regional Communications Income Fund on and after such date.*

All amounts are in millions of Canadian dollars, except where noted.

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 sales of our investment in CGI Group Inc. (CGI) and most of our investment in CTVglobemedia Inc. (CTVglobemedia) (formerly known as Bell Globemedia Inc.). CGI and CTVglobemedia are shown as discontinued operations.

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, notably in our wireless product line and in our Business segment. In both cases, 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 a portion of the total price to any undelivered products and services based on their fair value and the remainder to any products and services that have been delivered. If the conditions to separately account for the product or service are not met, we generally recognize revenue pro rata over the term of the sale 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 is calculated by reference to the carrying amount of the transferred accounts receivable and is allocated between accounts receivable sold and our retained interest, according to their relative fair values 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 on a prospective basis, 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.

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 and spectrum 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 assets' 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 impairment of individual reporting units in the fourth quarter of every year and when events or changes in circumstances indicate that goodwill might be impaired.

We assess goodwill impairment in two steps:

- we identify any 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 identifiable assets and liabilities, based on their fair values. The excess of the fair value of the reporting unit over 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 Inc. 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 the effectiveness of derivatives in managing risk initially 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*.

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 and losses are included in *Other long-term assets* or *Other long-term liabilities*.

Foreign Currency Forward Contracts and Options

We use foreign exchange forward contracts and options 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.

Equity Forward Contracts

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 and losses are included in *Other long-term assets* or *Other long-term liabilities*.

EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

We maintain defined benefit (DB) plans that provide pension benefits for most of our employees. Benefits are based on the employee's length of service and average rate of pay during the best consecutive 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' compensation and medical benefits to former or inactive employees, their beneficiaries and dependants, from the time their employment ends until their retirement starts, under certain circumstances.

We do not fund most of these other post-employment 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 during which 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 2006, this period ranged from approximately 9 to 13 years, with a weighted average period of 11 years.

December 31 is the measurement date for 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, 2005.

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.

Defined Contribution Plans

We also maintain defined contribution (DC) plans that provide certain employees with pension benefits. Under these plans, we are responsible for contributing a predetermined amount to an employee's retirement savings, based on a percentage of that employee's salary.

We recognize a pension cost for DC plans when the employee provides service to the company, essentially coinciding with our cash contributions.

Starting in 2005, new employees of BCE Inc. and Bell Canada can participate only in the DC pension arrangements.

INCOME TAXES

Current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years.

We use the 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
- the benefit of unutilized tax 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 related services are activated.

STOCK-BASED COMPENSATION PLANS

BCE Inc.'s stock-based compensation plans include the employee savings plans (ESPs), stock options plans, restricted share units plans (RSUs) 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 benefits awarded under long-term stock option incentive plans were reduced as a result of the introduction of a mid-term incentive plan that uses RSUs
- achieving a specific performance target that must be met in order for stock options to vest.

We credit contributed surplus for the amount of stock option expense recorded over the vesting period. Upon the exercise of stock options, we credit share capital for the amount paid by the employees as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

We recognize the contributions BCE Inc. makes under ESPs as compensation expense. We also recognize compensation expense or recovery relating to SCPs. The corresponding liabilities are recorded as part of *Accounts payable and accrued liabilities*.

Stock Options

We use the fair value-based method to account for employee stock options granted on or after January 1, 2002 and the Black-Scholes option pricing model to measure compensation expense relating to options. For options that contain a specific performance-based target, this is reflected in the calculation of the weighted average fair value per option granted.

Restricted Share Units

For each RSU granted we record compensation expense that equals the market value of a BCE Inc. common share at the date of grant, prorated over the vesting period. Compensation expense is adjusted for subsequent changes in the market value of BCE Inc. common shares and management's assessment of the number of RSUs that will vest. The cumulative effect of the change in value is recognized in the period of the change. Vested RSUs are settled in BCE Inc. common shares purchased on the open market or in cash, as the holder chooses.

Deferred Share Units

For each DSU granted we record compensation expense that equals the market value of a BCE Inc. common share at the grant date. Compensation expense is adjusted for subsequent changes in the market value of BCE Inc. common shares. DSUs are settled 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.

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 and Bell Aliant, are regulated by the CRTC pursuant to the *Telecommunications Act*.

RECENT CHANGES TO ACCOUNTING POLICIES AND STANDARDS

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. Adopting this section did not have a material effect on our consolidated financial statements.

FUTURE CHANGES TO ACCOUNTING STANDARDS

Accounting Changes

The CICA issued section 1506 of the CICA Handbook, *Accounting Changes*, which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors. These changes came into effect as of January 1, 2007.

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. Comprehensive income is the change in our net assets that results from transactions, events and circumstances from sources other than 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
- gains and losses on cash flow hedges.

The CICA also made related changes to section 3250 of the CICA Handbook, *Surplus* (reissued as section 3251, *Equity*) and section 1650 of the CICA Handbook, *Foreign Currency Translation* (reissued as section 1651, *Foreign Currency Translation*).

Effective January 1, 2007, we report accumulated other comprehensive income and its components in the consolidated financial statements.

The effect of adopting this section on January 1, 2007 was not significant.

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 derivatives. 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 amortized cost.
- 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.

The effect of adopting this section on January 1, 2007 was not significant.

Hedges

The CICA issued section 3865 of the CICA Handbook, *Hedges*, which describes how and when hedge accounting can be used.

Hedging is an activity used 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.

Under hedge accounting, 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.

The effect of adopting this section on January 1, 2007 was not significant.

Note 2: Bell Aliant

On March 7, 2006, BCE Inc. and Aliant announced their intention to form a new regional telecommunications service provider in the form of an income trust. On July 7, 2006, the Plan of Arrangement forming Bell Aliant was completed. Bell Aliant combines Bell Canada's former regional wireline operations in rural Ontario and Québec with Aliant's former wireline operations and includes Bell Canada's former 63.4% interest in NorthernTel Limited Partnership (NorthernTel) and Télébec Limited Partnership (Télébec), the operating partnerships of the Bell Nordiq Income Fund, held through Bell Nordiq Group Inc. (Bell Nordiq). Upon closing of the transaction, BCE held a 73.5% indirect interest in Bell Aliant.

BCE's ownership of Bell Aliant has been reduced to 44.7% through a distribution of trust units by way of a return of capital to holders of BCE Inc. common shares

on July 10, 2006, in accordance with the Plan of Arrangement. This distribution had the following impact on our balance sheet:

- Goodwill decreased by $533 million
- Non-controlling interest increased by $469 million
- Common shares decreased by $2,549 million and
- Contributed surplus increased by $1,547 million.

We continue to consolidate Bell Aliant as we have the right to elect the majority of the board of directors. The transaction increased the non-controlling interest in our investment.

Costs incurred to form Bell Aliant in 2006 are comprised mainly of:

- transaction costs of $138 million related mainly to investment banking, professional and consulting fees. See Note 5, *Restructuring and Other Items*.
- premium cost on early redemption of Bell Aliant long-term debt of $122 million. See Note 6, *Other (Expense) Income*.
- Of these transaction costs, $255 million have been paid in cash in 2006.

On June 30, 2006, Bell Aliant redeemed all of its issued and outstanding Cumulative Redeemable Preferred Shares, Series 2 for a total amount of $175 million.

On July 7, 2006, Bell Aliant renegotiated its existing long-term credit facilities outstanding as of December 31, 2005 and new ones were established to accommodate the financing requirements of the Plan of Arrangement forming Bell Aliant, refinance existing long-term debt and for general working capital purposes.

On September 25, 2006, Bell Aliant issued an aggregate of $1.25 billion of principal amount of unsecured medium term notes (the 'Notes') in two tranches: $750 million of 5-year Notes to mature September 26, 2011; and $500 million of 10-year Notes to mature September 26, 2016. The Notes were issued at a discount for yields to maturity of 4.72% and 5.41%, respectively.

BELL NORDIQ

On July 1, 2006, Bell Nordiq redeemed all of its issued and outstanding First Preferred Shares, Series 8 for a total amount of $60 million.

On January 16, 2007, Bell Nordiq Income Fund unit holders approved the privatization of Bell Nordiq Income Fund, previously announced on October 11, 2006. On January 29, 2007, the Bell Nordiq Income Fund unit holders received a special distribution of $4.00 in cash per unit and on January 30, 2007, received 0.4113 of a Bell Aliant unit for each Bell Nordiq Income Fund unit held. The Bell Nordiq Income Fund units ceased trading on The Toronto Stock Exchange (TSX) as of the close of business on January 29, 2007 and were delisted effective January 30, 2007. At December 31, 2006, Bell Aliant held a 63.3% voting interest in Bell Nordiq Income Fund.

Note 3: Segmented Information

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.

We report our results of operations under five segments: *Residential*, *Business*, *Bell 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.

Starting in the third quarter of 2006, our segment reporting reflects the formation of Bell Aliant and it is reported as a separate segment. Since Bell Aliant includes the operations of Bell Canada's former regional wireline operations and Bell Nordiq, the results of our other segments have been restated to reflect the sale of these operations. Additionally, the results of our other segments have been restated to reflect the sale of the operations to Bell Canada of Aliant wireless and the DownEast Mobility Limited (DownEast) retail stores, which are now reported in our Residential and Business segments.

The Residential segment provides local telephone, long distance, wireless, Internet access, video and other services to Bell Canada's residential customers, mainly in urban 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 urban Ontario and Québec, as well as business customers in Western Canada.

The Bell Aliant segment provides local telephone, long distance, data and other information technology and communication services to residential and business customers in the Atlantic provinces, and in rural Ontario and Québec.

The Other Bell Canada segment includes Bell Canada's Wholesale business and the financial results of Northwestel Inc. (Northwestel). Our Wholesale business provides local telephone, long distance, wireless, data and other services to competitors who resell these services. Northwestel provides telecommunications services to less populated areas of Canada's northern territories. At December 31, 2006, Bell Canada owned 100% of Northwestel.

The Other BCE segment includes the financial results of our satellite businesses as well as the costs incurred by our corporate office. This segment includes Telesat Canada (Telesat). 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 Bell Aliant are included in the Other Bell Canada segment and not allocated to the Residential or Business segments because they are managed centrally.

The following tables are a summary of financial information by segment for the last two years. Segmented information for the year ended December 31, 2004 has not been restated to reflect our new segments as it is not practicable to prepare.

	RESIDENTIAL	BUSINESS	BELL ALIANT	OTHER BELL CANADA	INTER-SEGMENT ELIMINATIONS – BELL CANADA	BELL CANADA	OTHER BCE	INTER-SEGMENT ELIMINATIONS – OTHER	CONSOLIDATED
For the year ended December 31, 2006									
Operating revenues									
External customers	**7,086**	**5,900**	**2,996**	**1,358**	**—**	**17,340**	**373**	**—**	**17,713**
Inter-segment	**13**	**157**	**362**	**234**	**(758)**	**8**	**162**	**(170)**	**—**
Total operating revenues	**7,099**	**6,057**	**3,358**	**1,592**	**(758)**	**17,348**	**535**	**(170)**	**17,713**
Operating income	**1,649**	**811**	**777**	**116**	**—**	**3,353**	**(21)**	**—**	**3,332**
Other (expense) income									**(176)**
Interest expense									**(952)**
Income taxes									**(85)**
Non controlling interest									**(228)**
Earnings from continuing operations									**1,891**
Segment assets	**12,787**	**12,632**	**5,974**	**3,772**	**—**	**35,165**	**1,792**	**—**	**36,957**
Investments at equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Capital expenditures	**(1,299)**	**(767)**	**(517)**	**(338)**	**—**	**(2,921)**	**(212)**	**—**	**(3,133)**
For the year ended December 31, 2005									
Operating revenues									
External customers	7,009	5,814	2,972	1,432	—	17,227	378	—	17,605
Inter-segment	7	152	348	219	(719)	7	160	(167)	—
Total operating revenues	7,016	5,966	3,320	1,651	(719)	17,234	538	(167)	17,605
Operating income	1,772	863	768	352	—	3,755	4	—	3,759
Other (expense) income									28
Interest expense									(949)
Income taxes									(803)
Non controlling interest									(201)
Earnings from continuing operations									1,834
Segment assets	12,130	12,409	6,687	2,790	—	34,016	6,466	—	40,482
Investments at equity	—	—	—	—	—	—	25	—	25
Capital expenditures	(1,417)	(867)	(525)	(310)	—	(3,119)	(238)	—	(3,357)

The following table is a summary of financial information by product for the last three years.

	2006	2005	2004
Local and access	**5,212**	5,465	5,572
Long distance	**1,798**	2,055	2,327
Wireless	**3,491**	3,085	2,818
Data	**4,120**	4,016	3,640
Video	**1,150**	976	850
Terminal sales and other	**1,577**	1,637	1,580
Total Bell Canada	**17,348**	17,234	16,787
Other BCE	**535**	538	422
Inter-segment eliminations	**(170)**	(167)	(200)
Total BCE	**17,713**	17,605	17,009

Note 4: Business Acquisitions and Dispositions

The consolidated statements of operations include the results of acquired businesses from the date they were purchased.

BUSINESS ACQUISITIONS

We made various business acquisitions in 2006 for a total consideration of $82 million.

	2006 TOTAL
Consideration received:	
Non-cash working capital	**2**
Capital assets	**3**
Other long-term assets	**3**
Indefinite-life intangible assets	**19**
Goodwill	**49**
Long-term debt	**(2)**
Other long-term liabilities	**(4)**
Non-controlling interest	**3**
	73
Cash and cash equivalents	**9**
Net assets acquired	**82**
Consideration given: (1)	
Cash	**76**
Acquisition costs	**4**
Non-cash	**2**
	82

(1)Excluding contingent payments of $5 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.

Of the $49 million goodwill acquired in 2006:

- $29 million relates to the Business segment, $7 million relates to the Residential segment, $12 million relates to the Bell Aliant segment and $1 million relates to the Other BCE segment
- $5 million is deductible for tax purposes.

The purchase price allocation for all 2006 acquisitions includes certain estimates. The final purchase price allocation for each business acquisition will be completed within 12 months of the acquisition date.

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.

	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 (1)	57	—	35	92
Goodwill (1)	—	47	72	119
Long-term debt	—	—	(61)	(61)
Other long-term liabilities (1)	—	(6)	(15)	(21)
	60	74	107	241
Cash and cash equivalents (bank indebtedness)	10	(3)	13	20
Net assets acquired	70	71	120	261
Consideration given: (2)				
Cash	69	67	105	241
Acquisition costs	1	4	2	7
Non-cash	—	—	13	13
	70	71	120	261

(1) In 2006, we decreased goodwill by $12 million and increased indefinite-life intangible assets by $15 million and future income tax liabilities by $3 million upon finalizing the purchase price allocation of 2005 business acquisitions. These adjustments have been reflected in the above table. See Note 16, Goodwill.

(2) Excluding 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.

Of the $119 million goodwill acquired in 2005:

- $78 million related to the Business segment, $23 million related to the Residential segment, $11 million related to the Other Bell Canada segment and $7 million related to the Other BCE segment
- $31 million is deductible for tax purposes.

We made the following business acquisitions in 2004:

- *Canadian operations of 360networks Corporation (360networks)* — In November 2004, Bell Canada acquired the Canadian operations of 360networks, a telecommunications service provider. The purchase included the shares of 360networks' subsidiary GT Group Telecom Services Corporation and certain 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 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* — 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. 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 Systems Inc. (Charon)* — In May 2004, Bell Canada acquired 100% of the assets of Charon. Charon is a full-service IT solutions provider that specializes in server-based computing, systems integration, IT security, software development and IT consulting.
- *Elix Inc. (Elix)* — In March 2004, Bell Canada acquired 75.8% of the outstanding shares of Elix. 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.
- *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.

	2004			
	CANADIAN OPERATIONS OF 360NETWORKS	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	—	—	(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 Aliant common shares	—	—	15	15
	293	646	194	1,133

Of the $561 million goodwill acquired in 2004:

- $451 million related to the Business segment, $4 million related to the Residential segment, $31 million related to the Aliant segment, and $75 million related to the Other Bell Canada segment
- $18 million is deductible for tax purposes.

BUSINESS DISPOSITION

Sale of Telesat

On December 18, 2006, we announced the sale of our satellite service subsidiary Telesat. We will, at closing, realize total proceeds of $3,250 million from the all-cash transaction. The sale is subject to customary closing conditions, including regulatory approval both in Canada and the United States and the absence of a material adverse change affecting Telesat's business, and is expected to close in mid-2007. In conjunction with the sale, we have put into place a set of commercial arrangements between Telesat and Bell ExpressVu that guarantees Bell ExpressVu access to current and expanded satellite capacity. Since we will have ongoing business arrangements with Telesat, it will not be accounted for as discontinued operations.

Note 5: Restructuring and Other Items

The following tables provide a summary of the costs recognized in 2006 as well as the corresponding liability as at December 31, 2006.

	2006	2005	2004
Restructuring costs	**(93)**	(6)	(1,063)
Real estate	**(72)**	(49)	—
Loss on long-term contract	**—**	—	(128)
Settlement with MTS	**—**	—	75
Other charges	**(190)**	—	(103)
Restructuring and other items	**(355)**	(55)	(1,219)

	BELL CANADA AND BCE	BELL ALIANT	CONSOLI-DATED
Balance in accounts payable and accrued liabilities at December 31, 2005	72	13	85
2006 restructuring costs (1)	77	11	88
Real estate (2)	69	—	69
Less:			
Cash payments	(133)	(20)	(153)
Balance in accounts payable and accrued liabilities at December 31, 2006	85	4	89

(1) Excludes amounts related to net benefit plans cost ($5 million).

(2) Excludes amounts related to real estate impairment charges ($3 million).

RESTRUCTURING COSTS

In 2006, we recorded restructuring charges of $165 million consisting of:

- charges at Bell Canada and BCE of $82 million related to restructuring initiatives for the involuntary departure of approximately 1,780 employees
- charges at Bell Aliant of $11 million related to restructuring initiatives
- charges at Bell Canada of $72 million for relocating employees and closing real estate facilities that are no longer needed because of the reduction in the workforce from our 2004 to 2006 restructuring initiatives bringing our cumulative expense since 2004 to $125 million. We expect to spend approximately $35 million for relocating employees and closing real estate facilities no longer needed as part of our 2005 and 2006 restructuring initiatives that will be expensed as incurred.

In addition, as part of our new initiative of relocating employees to campus environments in Calgary, Toronto and Montréal, to be complete by 2009, we expect to spend approximately $12 million for relocation costs and $94 million for lease vacancy costs, beginning in 2008 and extending up to 2024.

In 2005, we recorded restructuring charges of $55 million consisting of:

- charges of $51 million related to 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 relating to the 2004 employee departure program that were no longer necessary since actual payments were lower than estimated.

In 2004, Bell Canada recorded a restructuring charge of $985 million related to approximately 5,000 voluntary employee departures under the departure program 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.

The 2004 employee departure program is complete and the remaining payments extend to 2007.

Bell Canada also recorded a charge of $11 million for relocating employees and closing real estate facilities that were no longer needed because of the employee departure program.

In 2004, Bell Aliant recorded a restructuring charge of $67 million relating to its employee departure program. Under this 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.

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 and 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 6, *Other Income*, for more information.

OTHER CHARGES

During 2006, we recorded other charges totalling $190 million. These charges consisted mainly of costs related to the formation of Bell Aliant, costs we incurred for the Bell income trust initiative and the simplification of our corporate structure.

The costs associated with the formation of Bell Aliant consisted mainly of investment banking, professional and consulting fees. Of the total transaction costs, $133 million was paid in 2006 and is reflected as cash flows used in investing activities in the statement of cash flows.

During 2004, we recorded other charges totalling $103 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.

Note 6: Other (Expense) Income

	NOTE	**2006**	2005	2004
Premium on redemption of Bell Aliant debt		**(148)**	—	—
Net (losses) gains on investments		**(26)**	38	351
Interest income		**58**	18	30
Capitalized interest	13	**13**	15	19
Securitization losses	11	**(57)**	(34)	(26)
Bell Canada International Inc. (BCI) loss monetization charge		**—**	(33)	—
(Loss) income from cost and equity investments		**(7)**	(11)	24
Foreign currency (losses) gains		**(4)**	(3)	3
Other		**(5)**	38	38
Other (expense) income		**(176)**	28	439

PREMIUM ON REDEMPTION OF BELL ALIANT DEBT

In 2006, Bell Aliant recorded a $148 million charge for premium costs on early redemption of Bell Aliant debt. Included in the total charge for the year is a premium cost of $122 million as a result of the formation of Bell Aliant:

- $40 million, incurred on June 30, 2006, on the early redemption of all of its outstanding 10.75% First Mortgage Bonds, Series T and, on July 4, 2006, the early redemption of all of its outstanding 11.4% First Mortgage Bonds, Series V
- $82 million, incurred on July 4, 2006, at which date Bell Aliant redeemed all of its outstanding 8.30% Debentures, Series 2; 9.70% Debentures, Series 4; 9.05% Debentures, Series 5; 10.6% First Mortgage Bonds, Series T; 11.15% First Mortgage Bonds, Series U; 9.77% First Mortgage Bonds, Series V; and 8.76% First Mortgage Bonds, Series W.

NET (LOSSES) GAINS ON INVESTMENTS

In 2006, net losses on investments of $26 million included a loss of $36 million as a result of our decision to exit a line of business partly offset by a $9 million gain on the acquisition of Nortel Networks Inc. (Nortel) shares by the Bell Canada pension fund.

Net gains on investments of $38 million in 2005 were from:

- a $39 million dilution gain in our interest in TerreStar Networks Inc., a mobile satellite services company
- other net losses on investments of $1 million.

Net gains on investments of $351 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 gains on investments of $26 million.

Note 7: Interest Expense

	2006	2005	2004
Interest expense on long-term debt	**909**	907	916
Interest expense on other debt	**43**	42	45
Total interest expense	**952**	949	961

Note 8: Income Taxes

The following table reconciles the amount of reported income tax expense in the statements of operations with income tax expense at Canadian statutory rates of 34.7% in 2006, 34.4% in 2005, and 34.4% in 2004.

	2006	2005	2004
Income taxes computed at statutory rates	**(765)**	(976)	(733)
Savings from BCI monetization transaction	**—**	99	—
Recognition of previously unrecognized capital loss carryforwards (1)	**434**	—	54
Net gains on investments	**(19)**	—	66
Large corporations tax	**19**	(31)	(34)
Change in statutory rate	**56**	—	(2)
Non-taxable portion of Bell Aliant's income	**53**	16	13
Other	**137**	89	31
Total income tax expense	**(85)**	(803)	(605)

(1) In 2006, we recognized a future tax asset of $434 million representing the tax-effected amount of approximately $2,341 million of previously unrecognized capital loss carryforwards as realization of the loss carryforwards now is more likely than not due to the anticipated gain on the sale of Telesat.

The following table shows the significant components of income tax expense that related to earnings from continuing operations.

	2006	2005	2004
Current income taxes	**(98)**	(84)	(684)
Future income taxes			
Recognition and utilization of loss carryforwards	**138**	(234)	(27)
Change in statutory rate	**56**	—	(2)
Change in temporary differences and other	**(181)**	(485)	108
Total income tax expense	**(85)**	(803)	(605)

The following table 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.

	2006	2005
Non-capital loss carryforwards	**191**	487
Capital loss carryforwards	**457**	23
Capital assets	**(779)**	(498)
Indefinite-life intangible assets	**(437)**	(442)
Investment tax credits	**(155)**	(69)
Scientific research and experimental development expenditures	**154**	18
Employee benefit plans	**66**	87
Investments	**23**	15
Other	**(962)**	(1,082)
Total future income taxes	**(1,442)**	(1,461)

Future income taxes are comprised of:		
Future income tax asset – current portion	**662**	310
Future income tax asset – long-term portion	**255**	342
Future income tax liability – current portion	**(9)**	(5)
Future income tax liability – long-term portion	**(2,350)**	(2,108)
Total future income taxes	**(1,442)**	(1,461)

At December 31, 2006, BCE had $627 million in non-capital loss carryforwards. We:

- recognized a future tax asset of $191 million for financial reporting purposes for approximately $543 million of the non-capital loss carryforwards. Of the total, $459 million expires in varying annual amounts until the end of 2016. The balance expires in varying annual amounts from 2017 to 2026.
- did not recognize a future tax asset for financial reporting purposes for approximately $84 million of the non-capital loss carryforwards. Of the total, $44 million expires in varying annual amounts until the end of 2016. The balance expires in varying annual amounts from 2017 to 2026.

At December 31, 2006, BCE had $3,075 million in capital loss carryforwards, which can be carried forward indefinitely. We:

- recognized a future tax asset of $457 million for financial reporting purposes for approximately $2,481 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.

In June 2006, BCE contributed to BCI an amount of $61 million in partial satisfaction of its obligation with respect to the BCI income tax loss monetization transaction. See Note 9, *Discontinued Operations*.

Note 9: Discontinued Operations

	2006	2005	2004
CTVglobemedia	**7**	84	52
CGI	**63**	46	54
Emergis Inc. (Emergis)	**1**	—	23
BCI	**52**	—	—
Other	**(7)**	(3)	—
Net gain from discontinued operations	**116**	127	129

The following table is a summarized statement of operations for the discontinued operations.

	2006	2005	2004
Revenue	**989**	2,397	2,300
Operating gain from discontinued operations, before tax	**78**	312	255
Future income tax asset impairment charge	**—**	—	(56)
Gain (loss) from discontinued operations, before tax	**106**	(1)	70
Income tax expense on operating gain	**(32)**	(118)	(116)
Income tax expense on gain	**(14)**	—	(3)
Non-controlling interest	**(22)**	(66)	(21)
Net gain from discontinued operations	**116**	127	129

The following table is a summary of cash provided by discontinued operations.

	2006	2005	2004
Cash flows (used in) from operating activities	**(74)**	348	265
Cash flows from (used in) investing activities	**1,534**	(120)	(126)
Cash flows from (used in) financing activities	**627**	(125)	373
Cash provided by discontinued operations	**2,087**	103	512

CTVGLOBEMEDIA

On August 30, 2006, we reduced our interest in CTVglobemedia to 20% from 68.5% and we received net proceeds of approximately $665 million. The proceeds were offset by the deconsolidation of CTVglobemedia's cash on hand of $35 million. The net loss on disposition was $4 million. Included in the net assets sold was goodwill of $1,920 million. In January 2006, we received $607 million as a return of capital after the recapitalization of CTVglobemedia.

In September 2006, CTVglobemedia completed its takeover bid for CHUM Limited (CHUM). As a result of the transaction our interest in CTVglobemedia was reduced to 15%. Our remaining investment in CTVglobemedia is accounted for using the cost method.

We still retain certain important rights and have entered into a commercial agreement with CTVglobemedia to have access to existing and future content. These rights do not constitute continuing involvement with CTVglobemedia. CTVglobemedia was presented previously in the Other BCE segment.

BCI

In June 2006, BCE contributed to BCI an amount in satisfaction of its $61 million obligation with respect to the BCI income tax loss monetization transaction. In addition, as part of its liquidation process, BCI made a return of capital to BCE of $156 million on which we recorded a gain of $52 million.

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 and we have accounted for CGI as a discontinued operation. CGI was previously presented in the Other BCE segment.

On January 12, 2006, CGI bought 100 million of its Class A shares from us and we realized total net proceeds of $849 million. The proceeds were offset by the deconsolidation of CGI's cash on hand of $81 million. The gain on disposition was $79 million. Included in the net assets sold was goodwill of $674 million.

On April 6, 2006, we exercised our CGI warrants to acquire Class A shares at a cost of $21 million. In addition, we recorded a loss of $17 million in the second quarter of 2006, which represented a write-down of our remaining investment in CGI, which was available for sale, to fair market value based on its stock price at June 30, 2006.

Included in the net gain from discontinued operations in 2006 is a loss of $1 million, which represented a further write-down of our investment in CGI as a result of the Bell Canada pension fund's acquisition of our remaining 31.4 million CGI shares.

EMERGIS

In June 2004, we completed the sale of our 63.9% interest in Emergis 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.

Note 10: Earnings Per Share

The following table is a reconciliation of the numerator and the denominator used in the calculation of basic and diluted earnings per common share from continuing operations.

	2006	2005	2004
Earnings from continuing operations (numerator)			
Earnings from continuing operations	**1,891**	1,834	1,395
Dividends on preferred shares	**(70)**	(70)	(70)
Earnings from continuing operations – basic	**1,821**	1,764	1,325
Weighted average number of common shares outstanding (denominator) (in millions)			
Weighted average number of common shares outstanding – basic	**861.4**	926.8	924.6
Assumed exercise of stock options (1)	**0.2**	0.3	0.6
Weighted average number of common shares outstanding – diluted	**861.6**	927.1	925.2

(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. The number of excluded options was 18,479,608 in 2006, 24,466,767 in 2005 and 26,693,305 in 2004.

Note 11: Accounts Receivable

	2006	2005
Trade accounts receivable	**1,573**	1,470
Allowance for doubtful accounts	**(106)**	(125)
Allowance for revenue adjustments	**(112)**	(118)
Income taxes receivable	**97**	48
Investment tax credits receivable	**312**	154
Other accounts receivable	**104**	96
Total accounts receivable	**1,868**	1,525

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, 2006 ($1.2 billion at December 31, 2005) under a revolving sales agreement that was extended to December 31, 2011. Bell Canada had a retained interest of $136 million in the pool of accounts receivable at December 31, 2006 ($133 million at December 31, 2005), which equals the amount of over-collateralization in the receivables sold.

Bell 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, 2006 ($120 million at December 31, 2005) under a revolving sales agreement that was extended to July 7, 2011. Bell Aliant had a retained interest of $49 million in the pool at December 31, 2006 ($39 million at December 31, 2005).

Bell Canada and Bell Aliant continue to service these accounts receivable. The buyer's interest in the collection of these accounts receivable ranks ahead of the interests of Bell Canada and Bell Aliant, which means that Bell Canada and Bell 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 Bell Aliant accounts receivable until the agreements expire. The buyers and their investors have no claim on Bell Canada's and Bell Aliant's other assets if customers do not pay amounts owed.

In 2006, we recognized a loss of $57 million on the revolving sale of accounts receivable for the combined securitizations, compared to losses of $34 million in 2005 and $26 million in 2004.

The following table shows balances for the combined securitizations at December 31, 2006 and the assumptions that were used in the model on the date of transfer and at December 31, 2006. 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	**2006**	2005
Securitized interest in accounts receivable		**1,338**	1,354
Retained interest		**185**	172
Servicing liability		**2**	2
Average accounts receivable managed		**2,009**	1,972
Assumptions:			
Cost of funds	2.90%–4.20%	**4.20%**	2.86%
Average delinquency ratio	11.62%–12.32%	**11.69%**	12.32%
Average net credit loss ratio	0.51%–0.76%	**0.76%**	0.56%
Weighted average life (days)	36–37	**36**	37
Servicing fee liability	2.00%	**2.00%**	2.00%

The following table is a summary of certain cash flows received from and paid to the trusts during the year.

	2006	2005
Collections reinvested in revolving sales	**18,611**	17,724
(Decrease) increase in sale proceeds	**(16)**	229

Note 12: Other Current Assets

	NOTE	**2006**	2005
Future income taxes	8	**662**	310
Inventory		**329**	335
Prepaid expenses		**234**	191
Other		**8**	79
Total other current assets		**1,233**	915

Note 13: Capital Assets

	2006			2005		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Telecommunications assets						
Inside plant	**20,058**	**14,252**	**5,806**	19,246	13,358	5,888
Outside plant	**15,176**	**9,931**	**5,245**	14,522	9,492	5,030
Station equipment	**2,910**	**1,455**	**1,455**	2,655	1,311	1,344
Machinery and equipment	**5,949**	**3,587**	**2,362**	5,536	3,225	2,311
Buildings	**3,204**	**1,470**	**1,734**	3,063	1,314	1,749
Plant under construction	**1,579**	**—**	**1,579**	1,852	—	1,852
Satellites	**1,553**	**514**	**1,039**	1,552	404	1,148
Land	**79**	**—**	**79**	78	—	78
Other	**337**	**103**	**234**	200	66	134
Total property, plant and equipment	**50,845**	**31,312**	**19,533**	48,704	29,170	19,534
Finite-life intangible assets						
Software	**3,960**	**1,981**	**1,979**	3,163	1,497	1,666
Customer relationships	**652**	**106**	**546**	623	64	559
Other	**32**	**11**	**21**	26	13	13
Total capital assets	**55,489**	**33,410**	**22,079**	52,516	30,744	21,772

The cost of assets under capital leases was $1,475 million at December 31, 2006, and $1,283 million at December 31, 2005. Additions to assets under capital leases were $267 million in 2006 and $564 million in 2005. The net book value of these assets was $978 million at December 31, 2006, and $887 million at December 31, 2005.

Amortization of property, plant and equipment was $2,506 million in 2006, $2,511 million in 2005, and $2,499 million in 2004. Amortization of finite-life intangible assets was $620 million in 2006, $547 million in 2005 and $490 million in 2004.

We capitalized interest costs of $13 million in 2006, $15 million in 2005, and $19 million in 2004.

Additions to finite-life intangible assets were $631 million in 2006 and $503 million in 2005.

Note 14: Other Long-Term Assets

	NOTE	**2006**	2005
Accrued benefit asset	25	**1,110**	984
Future income taxes	8	**255**	342
Investments at cost		**754**	346
Investment tax credits receivable		**393**	345
Investments at equity		**—**	25
Deferred debt issuance costs		**94**	72
Long-term notes and other receivables		**87**	57
Deferred development costs		**3**	16
Other		**120**	119
Total other long-term assets		**2,816**	2,306

Amortization of deferred charges was $3 million in 2006, $3 million in 2005, and $11 million in 2004.

Note 15: Indefinite-Life Intangible Assets

	2006	2005
Brand name	**1,986**	1,986
Spectrum licences	**900**	897
Cable licences	**16**	16
Total indefinite-life intangible assets	**2,902**	2,899

Note 16: Goodwill

	NOTE	RESIDENTIAL	BUSINESS	BELL ALIANT	OTHER BELL CANADA	OTHER BCE	CONSOLI-DATED
Balance – December 31, 2005		2,671	1,831	1,217	150	97	5,966
Goodwill arising from current year acquisitions	4	7	29	12	—	1	49
Goodwill arising from purchase price adjustments for 2005 acquisitions	4	—	(12)	—	—	—	(12)
Distribution of Bell Aliant units	2	—	—	(533)	—	—	(533)
Other		1	—	4	—	—	5
Balance – December 31, 2006		**2,679**	**1,848**	**700**	**150**	**98**	**5,475**

Note 17: Accounts Payable and Accrued Liabilities

	NOTE	2006	2005
Trade accounts payable and accruals		**1,614**	1,535
Compensation payable		**486**	480
Deferred revenues		**475**	441
Taxes payable		**207**	244
Restructuring costs payable	5	**89**	85
Other current liabilities		**365**	300
Total accounts payable and accrued liabilities		**3,236**	3,085

Note 18: Debt Due Within One Year

	NOTE	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE MATURITY	2006	2005
Bank advances		4.25%	N/A	**9**	11
Notes payable		5.68%	30 days	**27**	80
Long-term debt due within one year	19			**950**	1,070
Total debt due within one year				**986**	1,161

N/A: Not applicable.

Restrictions

Some of the credit agreements:

- require us to meet specific financial ratios
- require us to maintain a certain level of Bell Canada voting shares.

We are in compliance with all conditions and restrictions.

Note 19: Long-Term Debt

	NOTE	WEIGHTED AVERAGE INTEREST RATE	MATURITY	2006	2005
BCE Inc. – Notes (a)		7.35%	2009	**650**	2,000
Bell Canada (b)					
Debentures		6.87%	2007–2035	**7,025**	7,479
Debentures		9.84%	2041–2054	**700**	700
Subordinated debentures		8.21%	2026–2031	**275**	275
Capital leases		6.42%	2007–2047	**975**	852
Other				**40**	69
Total – Bell Canada				**9,015**	9,375
Bell Aliant (c)					
Non-revolving term facility		Floating	2009	**1,235**	—
Debentures, notes and bonds		5.19%	2007–2020	**1,549**	1,086
Other				**28**	25
Total – Bell Aliant				**2,812**	1,111
Telesat – Notes and other		7.78%	2007–2010	**253**	340
Total debt				**12,730**	12,826
Unamortized premium (d)				**87**	99
Less: Amount due within one year	18			**(950)**	(1,070)
Total long-term debt				**11,867**	11,855

Restrictions

Some of the debt agreements:

- require us to meet specific financial ratios
- impose covenants, maintenance tests and new issue tests
- require us to maintain a certain level of Bell Canada voting shares.

We are in compliance with all conditions and restrictions.

(a) BCE Inc.

In 2006, BCE Inc. redeemed early $1,050 million of debt that was due on October 30, 2007. The remaining $650 million of debt is unsecured.

(b) Bell Canada

All debentures are unsecured. They include:

- US$200 million maturing in 2010, which has been swapped into Canadian dollars
- $125 million of long-term debt, which includes a call option that has been exercised, allowing for the debt to be redeemed on February 15, 2007.

Capital leases include $336 million in 2006 and $353 million in 2005, netted against loans receivable of $244 million in 2006 and $267 million in 2005. 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.

(c) Bell Aliant

All debentures, notes and bonds are issued under trust indentures and are unsecured with the exception of Télébec's debentures, which are secured by a mortgage on a property located in the province of Québec. All notes, bonds and debentures are issued in series and certain series are redeemable at Bell Aliant's option prior to maturity at the prices, times and conditions specified in each series.

Interest rates on the non-revolving term facility depend upon the form of borrowing selected and Bell Aliant's credit rating. Prime rate based loans bear interest at the prime rate per annum while Canadian Bankers' Acceptance, U.S. LIBOR loans, letters of credit and letters of guarantee bear interest at the base rate plus 0.50 per cent per annum. These rates may vary based on the credit ratings of Bell Aliant's long-term debt.

(d) 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.

Note 20: Other Long-Term Liabilities

	NOTE	**2006**	2005
Future income taxes	8	**2,350**	2,108
Accrued benefit liability	25	**1,538**	1,448
Deferred revenue on long-term contracts		**399**	389
Deferred contract payments		**168**	199
Other		**386**	663
Total other long-term liabilities		**4,841**	4,807

Note 21: Non-Controlling Interest

	NOTE	2006	2005
Non-controlling interest in subsidiaries:			
CTVglobemedia		**—**	817
Bell Aliant	2	**1,063**	675
Other		**17**	24
		1,080	1,516
Preferred shares issued by subsidiaries:			
Bell Canada		**1,100**	1,100
Bell Aliant	2	**—**	232
Telesat		**—**	50
		1,100	1,382
Total non-controlling interest		**2,180**	2,898

Note 22: 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, 2006:

- interest rate swaps that hedge interest rate risk on a portion of our long-term debt
- cross-currency swaps and forward contracts that hedge foreign currency risk on a portion of our long-term debt
- 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, 2006. 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.

The principal amount to be received under currency contracts was US$482 million at December 31, 2006. The principal amount to be paid under these contracts was $623 million at December 31, 2006.

INTEREST RATE EXPOSURES

We use interest rate swaps to manage the mix of fixed and floating interest rates on our debt. As at December 31, 2006, the following interest rate swaps with a notional amount of $1,950 million were outstanding:

- $700 million of interest rate swaps whereby we pay interest at a rate equal to the three-month Canadian dollar offered rate (CDOR) floating rate plus 0.42%. We receive interest on these swaps at a rate of 5.0%. The swaps mature in 2017.
- $500 million interest rate swap whereby we pay interest at a rate of 4.31%. We receive interest on the swap at a rate equal to the three-month CDOR floating rate. The swap matures in 2012.
- $300 million interest rate swap whereby we pay interest at a rate of 4.90%. We receive interest on the swap at a rate equal to the three-month CDOR floating rate. The swap matures in 2014.
- $200 million interest rate swap whereby we pay interest at a rate of 4.85%. We receive interest on the swap at a rate equal to the three-month CDOR floating rate. The swap matures in 2017.
- $200 million interest rate swap whereby we pay interest at a rate of 5.02%. We receive interest on the swap at a rate equal to the three-month CDOR floating rate. The swap matures in 2037.
- $50 million interest rate swap whereby we pay interest at a rate of 5.0%. We receive interest on the swap at a rate equal to the three-month CDOR floating rate. The swap matures in 2037.

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 by assumptions we make about the amount and timing of estimated future cash flows and discount rates, all of which 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 following table.

	2006		2005	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Investment in Nortel (1)	**—**	**—**	55	52
Long-term debt due within one year	**950**	**956**	1,070	1,079
Long-term debt	**11,867**	**13,127**	11,855	13,523
Derivative financial instruments, net asset (liability) position:				
Forward contracts – BCE Inc. shares	**5**	**7**	—	(1)
Currency contracts	**(58)**	**(77)**	(90)	(120)
Interest rate swaps and swaptions	**—**	**(26)**	(7)	(17)

(1) In 2006, the Nortel common shares were undesignated as a hedge of our exposure to outstanding rights to SCPs and the Bell Canada pension plan acquired them from us. In 2005, we designated 4 million of our approximately 15 million Nortel common shares to manage our exposure to outstanding rights to SCPs.

Note 23: 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 following table 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, 2006. 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 2006	STATED CAPITAL AT DECEMBER 31 2005
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, 2011	At any time	$25.50	8,000,000	2,279,791	**57**	200
T	4.502%	Series S	November 1, 2011	November 1,2011	$25.00	8,000,000	5,720,209	**143**	—
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, 2006 were non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to Dividends

Holders of Series R, T, 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. The floating dividend rate on these shares is calculated every month, as set out in BCE Inc.'s articles of amalgamation.

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

Conversion Features

All of the issued and outstanding preferred shares at December 31, 2006 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, T, Z, AA and AC shares 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.

If Series Q, AB and AD shares are issued, BCE Inc. may redeem them at any time at $25.50 per share.

On January 25, 2007, the articles of amalgamation of BCE Inc. were amended to create the Series AE, AF, AG, AH, AI and AJ First Preferred Shares. These new series of shares were created in furtherance of a plan of arrangement of Bell Canada whereby all of the issued and outstanding series of preferred shares of Bell Canada having a stated capital of $1,100 million as at December 31, 2006, were exchanged for a corresponding series of First Preferred Shares of BCE Inc. The impact on our balance sheet will be a reclassification from our non-controlling interest to preferred shares for the stated capital amount. This plan of arrangement became effective on January 31, 2007.

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 following table provides details about the outstanding common shares of BCE Inc. No Class B shares were outstanding at December 31, 2006 and 2005.

	2006		2005	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
Outstanding, beginning of year	**927,318,916**	**16,806**	925,935,682	16,781
Shares issued under employee stock option plan (1)	**1,246,932**	**35**	1,383,234	25
Shares repurchased and cancelled	**(45,151,666)**	**(805)**	—	—
Share reduction (2)	**(75,770,241)**	**(2,549)**	—	—
Outstanding, end of year	**807,643,941**	**13,487**	927,318,916	16,806

(1) Includes a $6 million reclassification from contributed surplus relating to the exercise of employees' stock options.

(2) Reduction of BCE Inc. common shares outstanding, in conjunction with a distribution of Bell Aliant trust units, by way of return of capital, to holders of BCE Inc. common shares.

Normal Course Issuer Bid (NCIB)

On February 1, 2006, BCE Inc. announced its plan to repurchase 5% of its outstanding common shares through a NCIB.

As at December 31, 2006, BCE Inc. had repurchased and cancelled a total of 45 million common shares, representing the total common shares targeted for repurchase, for a total cash outlay of $1.2 billion.

Of the total amount, $805 million represented stated capital and reduced the total value of common shares, while $52 million reduced the contributed surplus attributable to these common shares. The remaining $384 million was charged to the deficit.

On December 12, 2006, BCE Inc. announced its plan to renew the share repurchase program for an additional 12-month period to repurchase 5% of its outstanding common shares through a NCIB for which we obtained approval from the TSX on February 6, 2007.

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 2,658,255 common shares were bought on the open market under this plan for $76 million in 2006. A total of 3,039,870 common shares were bought on the open market under this plan for $91 million in 2005.

The following table is a reconciliation of the contributed surplus balance during the year.

	NOTE	2006	2005
Balance, beginning of year		**1,081**	1,061
Gain on distribution of Bell Aliant units	2	**1,547**	—
Repurchase of common shares – NCIB		**(52)**	—
Other		**(21)**	20
Balance, end of year		**2,555**	1,081

Note 24: Stock-Based Compensation Plans

Reflected in the consolidated statements of operations as operating expense are the following stock-based compensation amounts:

	2006	2005	2004
Employee savings plans (1)	**46**	45	43
Stock options (1)	**8**	17	22
Restricted share units (1)	**45**	39	26
Special compensation payments (2)	**(3)**	(3)	(9)
Deferred share units	**1**	4	5
Deferred unit plan	**3**	—	—
Total stock-based compensation expense	**100**	102	87

(1) Prior periods have been adjusted to include stock-based compensation of Bell Aliant that had been previously excluded.

(2) Includes recoveries of SCP expense as a result of forfeitures.

The ESP, stock option, RSU, SCP and DSU plan descriptions below relate only to BCE's plans as these are the most significant 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 ESPs 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.

There were 30,168 employees participating in the plans at December 31, 2006. The total number of common shares bought for employees was 6,395,865 in 2006 and 6,024,936 in 2005. At December 31, 2006, 13,513,812 common shares were reserved for issuance under the ESPs.

STOCK OPTIONS

Under BCE Inc.'s long-term incentive plans, BCE Inc. may grant options to key employees to buy BCE Inc. common shares. The subscription price is equal to the market value of the shares on the last trading day before the grant comes into effect. At December 31, 2006, 26,876,114 common shares were authorized for issuance under these plans.

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. Subject to achieving the specific performance target, 50% of the options will vest after two years and the remaining 50% after three years. Options become exercisable when they vest and can be exercised for a period of up to six years from the date of grant.

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 plan.

The following table is a summary of the status of BCE Inc.'s stock option plans.

	2006		2005		2004	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE ($)
Outstanding, January 1	**27,342,735**	**$32**	28,481,679	$32	25,750,720	$32
Granted	**485,372**	**$27**	1,481,924	$28	5,911,576	$30
Exercised	**(1,246,932)**	**$23**	(1,383,234)	$18	(1,946,864)	$16
Expired/forfeited	**(2,339,327)**	**$32**	(1,237,634)	$34	(1,233,753)	$34
Outstanding, December 31	**24,241,848**	**$33**	27,342,735	$32	28,481,679	$32
Exercisable, December 31	**16,648,952**	**$35**	16,505,709	$34	14,633,433	$34

The following table provides more information about BCE Inc.'s stock option plans at December 31, 2006.

	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	318,745	2.23	$16	318,745	$16
$20-$29	11,277,420	4.69	$29	3,868,374	$28
$30-$39	7,033,741	4.70	$34	6,849,891	$34
Over $40	5,611,942	3.76	$41	5,611,942	$41
	24,241,848	4.45	$33	16,648,952	$35

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.

	2006	2005	2004
Number of stock options granted	**485,372**	1,481,924	5,911,576
Weighted average fair value per option granted ($)	**2**	3	4
Weighted average assumptions:			
Dividend yield	**4.4%**	4.4%	4.0%
Expected volatility	**17%**	19%	27%
Risk-free interest rate	**4.1%**	3.6%	3.1%
Expected life (years)	**3.9**	3.5	3.5

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

Since 2004, BCE Inc. grants 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.

The following table is a summary of the status of RSUs.

	NUMBER OF RSUS		
	2006	2005	2004
Outstanding, January 1	**2,520,781**	1,996,522	—
Granted	**3,090,144**	504,427	1,986,513
Dividends credited	**89,773**	100,657	61,086
Payments	**(2,542,451)**	—	—
Forfeited	**(173,212)**	(80,825)	(51,077)
Outstanding, December 31	**2,985,035**	2,520,781	1,996,522

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, 2006, was:

- 292,150 relating to BCE Inc. common shares
- 216,864 relating to Nortel common shares.

A 1-for-10 consolidation of the issued and outstanding common shares of Nortel was effective December 1, 2006 and the number of SCPs outstanding has been adjusted accordingly.

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.

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 following table is a summary of the status of DSUs.

	NUMBER OF DSUS		
	2006	2005	2004
Outstanding, January 1	**984,648**	886,714	703,995
Granted	**358,993**	173,158	306,225
Dividends credited	**54,597**	40,668	37,226
Payments	**(110,816)**	(115,892)	(160,732)
Outstanding, December 31	**1,287,422**	984,648	886,714

DEFERRED UNIT PLAN

Bell Aliant is currently finalizing a deferred unit plan for certain of their executives and senior management to further align their long-term incentive compensation with their total unitholder returns. The framework for this new plan has been approved by their board of trustees and is expected to be finalized in early 2007 when an initial grant will be issued for the service period from 2006 to 2008.

Note 25: Employee Benefit Plans

We provide pension, other retirement and post-employment benefits for almost all of our employees. These include DB pension plans and DC pension plans.

	2006	2005	2004
Pension benefits:			
DB plans cost	**320**	221	76
DC plans cost	**28**	20	9
Other future benefits cost	**165**	118	156
Net benefit plans cost	**513**	359	241

COMPONENTS OF DEFINED BENEFIT PLANS COST

The following table shows the DB 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		
	2006	2005	2004	**2006**	2005	2004
Current service cost	**268**	212	221	**28**	35	31
Interest cost on accrued benefit obligation	**851**	858	791	**111**	110	104
Actual return on plan assets	**(1,723)**	(1,545)	(1,047)	**(17)**	(12)	(4)
Past service costs (credits) arising during period	**38**	—	75	**(55)**	(120)	14
Actuarial loss (gain) on accrued benefit obligation	**(9)**	1,747	754	**79**	499	102
Elements of employee future benefit plans cost, before recognizing its long-term nature	**(575)**	1,272	794	**146**	512	247
Excess (deficiency) of actual return over expected return (1)	**737**	617	110	**5**	2	(6)
Deferral of amounts arising during period:						
Past service (costs) credits	**(38)**	—	(75)	**55**	120	(14)
Actuarial (loss) gain on accrued benefit obligation	**9**	(1,747)	(754)	**(79)**	(499)	(102)
Amortization of previously deferred amounts:						
Net past service costs (credits)	**12**	8	8	**(5)**	1	—
Net actuarial losses	**167**	92	31	**19**	—	1
Transitional (asset) obligation	**(6)**	1	(43)	**24**	26	30
Curtailment gain (2)	**—**	—	—	**—**	(44)	—
Adjustments to recognize long-term nature of employee future benefit plans cost	**881**	(1,029)	(723)	**19**	(394)	(91)
Increase (decrease) in valuation allowance	**12**	(24)	3	**—**	—	—
Other	**2**	2	2	**—**	—	—
DB plans cost, recognized	**320**	221	76	**165**	118	156

(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 $13,192 million at January 1, 2006, $12,691 million at January 1, 2005, and $12,820 million at January 1, 2004.

(2) 2005 includes a curtailment gain associated with the phase-out, over three years, of a discretionary allowance program.

COMPONENTS OF ACCRUED BENEFIT ASSET (LIABILITY)

The following table 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	
	2006	2005	**2006**	2005
Accrued benefit obligation, beginning of the year	**16,213**	14,068	**2,179**	1,770
Current service cost	**268**	212	**28**	35
Interest cost on accrued benefit obligation	**851**	858	**111**	110
Actuarial losses (gains)	**(9)**	1,747	**79**	499
Benefit payments	**(914)**	(884)	**(96)**	(93)
Employee contributions	**8**	8	**—**	—
Special termination costs	**(49)**	(17)	**(17)**	(21)
Plan amendment (1)	**38**	—	**(55)**	(120)
Transfers from DC pension plans	**—**	221	**—**	—
Other	**9**	—	**2**	(1)
Accrued benefit obligation, end of the year	**16,415**	16,213	**2,231**	2,179
Fair value of plan assets, beginning of the year	**13,870**	12,793	**149**	137
Actual return on plan assets	**1,723**	1,545	**17**	12
Benefit payments	**(914)**	(884)	**(96)**	(93)
Employer contributions (2)	**431**	202	**96**	93
Employee contributions	**8**	8	**—**	—
Transfers from DC pension plans	**—**	221	**—**	—
Other	**3**	(15)	**—**	—
Fair value of plan assets, end of the year	**15,121**	13,870	**166**	149
Plan deficit	**(1,294)**	(2,343)	**(2,065)**	(2,030)
Unamortized net actuarial losses	**2,290**	3,246	**514**	492
Unamortized net past service costs (credits)	**140**	115	**(41)**	(1)
Unamortized transitional (asset) obligation	**(20)**	(26)	**163**	186
Valuation allowance	**(115)**	(103)	**—**	—
Accrued benefit asset (liability), end of year	**1,001**	889	**(1,429)**	(1,353)
Accrued benefit asset included in other long-term assets	**1,110**	984	**—**	—
Accrued benefit liability included in other long-term liabilities	**(109)**	(95)	**(1,429)**	(1,353)

(1) 2005 includes a curtailment gain associated with the phase-out, over the next three years, of a discretionary allowance program.

(2) In 2006, the Bell Canada pension fund acquired from us 14.9 million Nortel shares, 31.4 million CGI shares and other marketable securities having an aggregate market value of $284 million. These acquisitions reduced our cash contributions in 2006.

For DB pension plans with an accrued benefit obligation that was more than plan assets:

• the accrued benefit obligation was $16,008 million at December 31, 2006, and $15,956 million at December 31, 2005

• the fair value of plan assets was $14,667 million at December 31, 2006, and $13,596 million at December 31, 2005.

For DB pension plans with an accrued benefit obligation that was less than plan assets:

• the accrued benefit obligation was $407 million at December 31, 2006, and $257 million at December 31, 2005

• the fair value of plan assets was $454 million at December 31, 2006, and $274 million at December 31, 2005.

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		
	2006	2005	2004	**2006**	2005	2004
At December 31						
Accrued benefit obligation:						
Discount rate, end of year	**5.3%**	5.2%	6.2%	**5.3%**	5.2%	6.2%
Rate of compensation increase, end of year	**3.0%**	3.0%	3.5%	**3.0%**	3.0%	3.5%
For the year ended December 31						
Net benefit plans cost:						
Discount rate, end of preceding year (1)	**5.4%**	6.2%	6.5%	**5.4%**	6.2%	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	**3.0%**	3.5%	3.5%	**3.0%**	3.5%	3.5%

(1) The discount rate is an average for 2006 and at the end of the preceding year for 2005 and 2004. On July 7, 2006, following the formation of Bell Aliant, the discount rate used to value our pension obligations was increased to 5.6% from 5.2% to reflect the change in long-term market interest rates at that time.

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 2006 and the foreseeable future

• an annual rate of increase of 10.5% in the cost of medication for 2006 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 following table, 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	17	(16)
Effect on other benefits – accrued obligation	236	(220)

PENSION PLAN ASSETS

The investment strategy for the major pension 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 following table shows the allocation of our pension plan assets at December 31, 2006 and 2005, target allocations for 2006 and the expected long-term rate of return by asset class.

ASSET CATEGORY	WEIGHTED AVERAGE TARGET ALLOCATION **2006**	PERCENTAGE OF PLAN ASSETS AT DECEMBER 31 **2006**	2005	WEIGHTED AVERAGE EXPECTED LONG-TERM RATE OF RETURN **2006**
Equity securities	**45%–65%**	**58%**	59%	**9.0%**
Debt securities	**35%–55%**	**42%**	41%	**5.5%**
Total/average		**100%**	100%	**7.5%**

Equity securities included approximately $82 million of BCE Inc. common shares or 0.5% of total plan assets at December 31, 2006, and approximately $62 million of BCE Inc. common shares or 0.4% of total plan assets at December 31, 2005.

Debt securities included approximately $10 million of BCE Inc. and affiliates' debentures or 0.1% of total plan assets at December 31, 2006, and approximately $14 million of BCE Inc. and affiliates' debentures or 0.1% of total plan assets at December 31, 2005.

ESTIMATED FUTURE BENEFIT PAYMENTS

The following table shows the estimated future defined benefit payments for the next 10 years as at December 31, 2006.

	PENSION BENEFITS	OTHER BENEFITS
2007	925	102
2008	947	107
2009	968	114
2010	989	119
2011	1,010	126
2012–2016	5,336	731
Total estimated future benefit payments	10,175	1,299

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 following table 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		
	2006	2005	2004	**2006**	2005	2004
Bell Aliant	**116**	178	69	**7**	6	4
Bell Canada	**42**	21	18	**89**	87	77
BCE Inc.	**8**	7	8	**—**	—	—
Telesat	**6**	—	—	**—**	—	—
Total	**172**	206	95	**96**	93	81
Comprised of:						
Contributions to DB plans	**147**	201	86	**96**	93	81
Contributions to DC plans	**25**	5	9	**—**	—	—

We expect to contribute approximately $270 million to our defined benefit pension plans in 2007, subject to actuarial valuations being completed. We expect to pay approximately $100 million to beneficiaries under other employee benefit plans in 2007. We expect to contribute approximately $30 million to the DC pension plans in 2007.

Note 26: Commitments and Contingencies

CONTRACTUAL OBLIGATIONS

The following table is a summary of our contractual obligations at December 31, 2006 that are due in each of the next five years and after 2011.

	2007	2008	2009	2010	2011	THERE-AFTER	TOTAL
Long-term debt (excluding capital leases)	744	1,051	2,758	1,076	1,008	5,117	11,754
Notes payable and bank advances	36	—	—	—	—	—	36
Capital leases	206	120	47	45	89	556	1,063
Operating leases	219	199	171	143	116	771	1,619
Commitments for capital expenditures	202	116	46	4	3	49	420
Purchase obligations	1,295	988	493	353	321	414	3,864
Other long-term liabilities (including current portion)	74	42	44	47	49	21	277
Total	2,776	2,516	3,559	1,668	1,586	6,928	19,033

Long-term debt and notes payable and bank advances include $1,344 million drawn under our committed credit facilities. They do not include $444 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 $4.4 billion. Current commercial paper credit lines expire in August 2009 and Bell Aliant's current commercial paper credit lines expire in July 2011.

BCE Inc., Bell Canada and Bell Aliant may issue notes under their commercial paper programs up to the amount of their supporting committed lines of credit. The total amount of these supporting committed lines of credit available (net of letters of credit) was $1.7 billion at December 31, 2006. BCE Inc., Bell Canada and Bell Aliant had no commercial paper outstanding at December 31, 2006.

Bell Canada can issue up to $400 million of 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, 2006.

The imputed interest to be paid on capital leases is $474 million.

Rental expense relating to operating leases was $275 million in 2006, $312 million in 2005, and $354 million in 2004.

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. for the development of Bell Canada's billing system. The total amount was $204 million at December 31, 2006.
- Telesat's deferred satellite performance incentive payments and their deferred milestone payments. The total amount was $73 million at December 31, 2006.

At December 31, 2006, 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 ACCOUNT MECHANISM

On February 16, 2006, the CRTC issued Telecom Decision 2006-9, in which it estimated incumbent telephone companies' deferral account amounts, on an accumulated balance and future annualized commitment basis, at May 31, 2006. Bell Canada estimates its accumulated deferral account balance at May 31, 2006 to be $479 million with an estimated future annualized commitment of $82 million. Bell Aliant's accumulated deferral account balance at May 31, 2006 is estimated to be $8 million with no estimated future annualized commitment. Neither Bell Canada nor Bell Aliant can finalize their estimates of deferral account balances since the outcome of certain outstanding regulatory proceedings is unknown.

In Telecom Decision 2006-9, the CRTC made the following orders to clear the accumulated balances in the deferral accounts:

- The CRTC first directed each Incumbent Local Exchange Carrier (ILEC) to allocate a minimum of 5% of the accumulated balance in its deferral account to improve access to telecommunication services for persons with disabilities
- As to the remaining 95% of the accumulated balance in the deferral account, the CRTC addressed both broadband service investments and subscriber rebates. The CRTC concluded that each ILEC could use funds in its

deferral accounts for initiatives to expand broadband services to rural and remote communities. If an ILEC chooses not to invest in broadband expansion, or invests in such expansion but has money left over in its deferral account, the remaining funds will be rebated to the ILEC's residential local subscribers in non-high cost serving areas.

Telecom Decision 2006-9 also indicated that the future annual deferral account obligations of ILECs 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 and certain other ILECs filed rate proposals on May 15, 2006 that became effective on June 1, 2006. Bell Canada's proposal eliminated approximately $68 million of its estimated future annualized commitment. Bell Canada believes that the impact of outstanding regulatory proceedings may absorb the remaining annualized commitment. Telecom Decision 2006-9 also noted that the extension of the Second Price Cap Period to May 31, 2007 will result in an additional annual deferral account obligation. Under this decision, Bell Canada's additional future annualized commitment is estimated to be $10 million. On May 12, 2006, Bell Canada filed a Part VII application seeking the recovery of the wireline-related costs associated with the implementation of wireless number portability from its deferral account. The outcome of this application and of other outstanding proceedings could reduce this additional obligation.

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. On March 17, 2006, Bell Canada filed an application for leave to appeal this decision to the Federal Court of Appeal, to the extent that it requires Bell Canada to give rebates in respect of rates that the CRTC had made final in 2003. Another broader application for leave to appeal was also filed on behalf of consumer groups. The Federal Court of Appeal granted Bell Canada's and the consumers groups' respective leave to appeal applications concerning Telecom Decision 2006-9 in Orders dated September 22, 2006, respectively. On May 16, 2006, Barrett Xplore Inc., a broadband service provider, applied to the Governor in Council to overturn the CRTC's determinations regarding the use of deferral account funds by ILECs to expand the availability of broadband services. The same company filed an application to the CRTC to review and vary Telecom Decision 2006-9 on June 2, 2006.

On September 1, 2006 Bell Canada and Bell Aliant filed their proposals for clearing the accumulated balances in their deferral accounts. Bell Canada proposed to use 5% of its estimated accumulated balance for the implementation of initiatives that improve access to telecommunication services for persons with disabilities, with the remaining 95% of the accumulated balance used to expand broadband services over a five-year period to unserved areas in rural and remote communities. Bell Aliant proposed to use 5% of its accumulated balance for the implementation of initiatives that improve access to telecommunication services for persons with disabilities and referred to its proposal filed May 15, 2006 for clearing the remaining 95% of its accumulated balance. On September 28, 2006, the CRTC issued Telecom Decision 2006-64, in which it approved Bell Aliant's application to increase its deferral account drawdown for the recovery of expenditures related to its Service Improvement Plan program.

On November 30, 2006, the CRTC issued Public Notice 2006-15 initiating a proceeding to assess the proposals for broadband expansion and improving access to telecommunication services for persons with disabilities filed September 1, 2006 by Bell Canada as well as other incumbent telephone companies. A decision in this proceeding is scheduled to be issued in January 2008. Due to the nature and number of uncertainties which remain concerning the disposition of accumulated balances in the deferral account, we are unable to estimate the impact of the CRTC's decision on our financial results at this time.

LITIGATION

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 December 31, 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.

Teleglobe Lending Syndicate Lawsuit

On July 12, 2002, some members of the Teleglobe and Teleglobe Holdings (U.S.) Corporation (collectively, Teleglobe) 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 Inc. 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. BNP Paribas (Canada), which had advanced US$50 million to Teleglobe, is now pursuing a separate action against BCE Inc. and former Teleglobe directors and officers. 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.

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 Inc., against five former directors of Teleglobe Inc. This lawsuit was filed in connection with 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 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 Inc. all amounts paid or distributed on such redemption and retraction, being an aggregate of approximately $661 million, plus interest.

On February 26, 2007, the five former directors filed a third-party claim in the Ontario Superior Court of Justice against the former third series preferred shareholders of Teleglobe Inc. As provided by the *Canada Business Corporations Act*, the third-party claim seeks to recover from those former third series preferred shareholders any amounts the former directors may have to restore to Teleglobe Inc. as a result of this lawsuit, on account of the redemption of the third series preferred shares.

While BCE Inc. is not a defendant in this lawsuit, Teleglobe Inc. was at the relevant time a subsidiary of BCE Inc. Pursuant to 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 Inc. 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.

Teleglobe Inc. 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.

Purported Class Action Concerning Bell Canada and Bell Mobility Inc. (Bell Mobility) Late Payment Charges

On June 27, 2006, a motion to obtain the authorization to institute a class action in Québec was served against Bell Canada and Bell Mobility in the province of Québec, in the Québec City District of the Superior Court. The lawsuit was filed on behalf of all physical persons and companies in Canada that were billed late payment charges by Bell Canada and Bell Mobility despite the fact that customers allegedly paid amounts owing to Bell Canada and Bell Mobility to a financial institution, by Internet, by telephone or by cheque within the payment period indicated on their bills, and/or that suffered damages resulting from a payment allegedly made before the due date, and/or that were allegedly billed, in the case of Québec residents, interest at a rate higher than the legal rate. The lawsuit has not yet been authorized as a class action.

The motion seeks an order requiring Bell Canada and Bell Mobility to repay all late payment charges to the members of the class. In addition to the reimbursement of such amounts, the class action would, if authorized, also seek payment of damages and punitive damages by Bell Canada and Bell Mobility.

Note 27: 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 that have a fixed maximum potential exposure, and their respective terms.

	2007	2008	2009	2010	2011+	INDEFI-NITE	TOTAL
Sale of assets and businesses	15	—	—	1,500	28	102	1,645
Sale of services	15	20	91	—	55	—	181
Purchase and development of assets	—	12	1	—	—	10	23
Other	—	—	—	—	—	12	12
Total	30	32	92	1,500	83	124	1,861

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 counter-parties 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 nominal amount has been accrued in the consolidated balance sheet relating to this type of indemnification or guarantee at December 31, 2006. 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, 2006. 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, 2006. 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, 2006. Historically, we have not made any significant payments under such indemnifications or guarantees.

Note 28: Supplemental Disclosure for Statements of Cash Flows

	2006	2005	2004
Cash (used in) provided by non-cash operating assets and liabilities is as follows:			
Accounts receivable	**(86)**	518	31
Other current assets	**(52)**	(31)	(94)
Other long-term assets	**(52)**	(83)	(28)
Accounts payable and accrued liabilities	**(259)**	(675)	261
Other long-term liabilities	**(7)**	(138)	11
Other	**209**	25	(43)
Total cash (used in) provided by non-cash operating assets and liabilities	**(247)**	(384)	138

Glossary

ARPU and ARPS

Average revenue per unit and average revenue per subscriber represent measurements of the average revenue generated by each unit or subscriber, expressed as a rate per month for the year.

Black-Scholes Option Pricing Model

The Black-Scholes option pricing model is the 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.

Book Value Per Share

This is common shareholders' equity divided by the number of common shares outstanding.

Capital Intensity

This is capital expenditures divided by operating revenues.

Cash Flow Per Share

This is calculated by dividing cash from operating activities less capital expenditures by the average number of common shares outstanding.

Cash Flow Yield

This 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.

Churn

This 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.

Common Dividend Payout Ratio

Dividends paid on common shares divided by net earnings applicable to common shares.

Common Dividend Yield

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.

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.

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.

Curtailment

A curtailment is a significant reduction in plan benefits that can result when a defined benefit 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.

Digital Equivalent Access Lines

These are derived by converting low-capacity data lines (DS-3 and lower) to the equivalent number of voice-grade access lines.

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 Margin

This is EBITDA divided by operating revenues.

EBITDA to Interest Ratio

EBITDA divided by interest expense.

Equity Method

The investment is initially recorded at cost and adjustments are made to include our share of the investment's 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.

Free Cash Flow

We define free cash flow as cash from operating activities after capital expenditures, total dividends and other investing activities.

Goodwill

Goodwill may be 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.

Long-Term Debt to Equity

This is long-term debt (including any portion due within one year) divided by shareholders' equity.

Market Capitalization

This is BCE Inc.'s share price at the end of the year multiplied by the number of common shares outstanding.

Net Debt to Capitalization Ratio

This is net debt divided by our capitalization (total net debt, non-controlling interest and shareholders' equity).

Net Debt to EBITDA

This is net debt divided by EBITDA.

Operating Margin

Operating income divided by operating revenues.

Price to Book Ratio

BCE Inc.'s share price divided by the book value per share.

Price to Cash Flow Ratio

BCE Inc.'s share price at the end of the year divided by the cash flow per share.

Price to Earnings Ratio

BCE Inc.'s share price at the end of the year divided by earnings per share.

ROE

Return on common shareholders' equity is net earnings available to common shares as a percentage of average common shareholders' equity.

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.

Total Debt to Total Assets

Total long-term debt (including debt due within one year) divided by total assets.

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.

Board of Directors

As at March 7, 2007

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,
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
Massachusetts, U.S.A.
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
Massachusetts, U.S.A.
Chairman of the Board,
MFS Investment Management

Director since February 2002

Michael J. Sabia
Montréal, Québec
President and Chief Executive Officer,
BCE Inc., and
Chief Executive Officer, 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

COMMITTEES OF THE BOARD
Members of Committees of the Board

AUDIT COMMITTEE

T.C. O'Neill *(Chair)*, A. Bérard, A.S. Fell, J. Maxwell, V.L. Young

The audit committee assists the board in the oversight of:

• the integrity of the financial statements and related information

• 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)*, R.A. Brenneman, B.M. Levitt, P.M. Tellier, V.L. Young

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, E.C. Lumley, J.H. McArthur, J.A. Pattison

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, R.C. Pozen

The MRCC assists the board in the oversight of the:

• compensation, nomination, evaluation and succession of officers and other management personnel

• health and safety policies and practices.

Executives

As at March 7, 2007

Michael J. Sabia
President and Chief Executive Officer

George A. Cope
President and Chief Operating Officer, Bell Canada

Michael T. Boychuk
Senior Vice-President and Treasurer

Stéphane Boisvert
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

Patricia A. Olah
Corporate Secretary

Wade Oosterman
President – Bell Mobility and Bell Distribution Inc., Chief Brand Officer, Bell Canada

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

Scott L. Thomson
Executive Vice-President – Corporate Development and Planning

Martine Turcotte
Chief Legal Officer

Siim A. Vanaselja
Chief Financial Officer

Tax Information

DIVIDENDS AND CAPITAL GAINS ON YOUR SHARES

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 and/or Bell Aliant Regional Communications Income Fund Units, you should contact the Investor Relations group to learn more on the tax implications impact on your cost or visit *www.bce.ca*.

Since January 1, 2006 and unless stated otherwise, dividends paid by BCE and Bell Canada to Canadian residents are eligible dividends as per the Canadian *Income Tax Act*. Since March 24, 2006 and unless stated otherwise, dividends paid by BCE and Bell Canada to Québec residents are eligible dividends as per the proposed changes announced during the March 23, 2006 provincial Budget speech.

FOREIGN INVESTORS

Dividends paid or credited to non-residents 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

We are 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, we may be required to deduct the IRS' specified backup withholding tax.

For additional information, please contact our Investor Relations or the transfer agent, Computershare Trust Company of Canada.

NORMAL COURSE ISSUER BID

On February 6, 2007, we received acceptance from the Toronto Stock Exchange (TSX) of our Notice of Intention to Make a Normal Course Issuer Bid. The filing of this notice allows us to purchase for cancellation up to 40,000,000 of our common shares, representing approximately 5% of the 807,658,658 common shares outstanding as at January 31, 2007. We are contemplating a buyback program of approximately $1.2 billion. Purchases of the shares will be made at the discretion of BCE Inc.'s management on the open market through the facilities of the TSX and/or the New York Stock Exchange (NYSE) in accordance with the by-laws and rules of such exchanges. Purchases of common shares may be made from time to time, at market prices, during the period starting February 9, 2007 and ending no later than February 8, 2008. You can obtain a copy of the Notice of Intention on request without charge from our Investor Relations Group.

Shareholder Information

2007 SHAREHOLDER MEETING

The shareholder meeting will take place at 9:30 a.m. (Eastern time), Wednesday, June 6, 2007, at Le Centre Mont-Royal, 2200 Mansfield Street, Montréal, Québec, in the auditorium Le Grand Salon.

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 our proxy circular or visit our website.

2007 QUARTERLY EARNINGS RELEASE DATES

First quarter	May 2, 2007
Second quarter	August 1, 2007
Third quarter	November 7, 2007
Fourth quarter	February 6, 2008

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 'Email 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 our website at *www.bce.ca*.

Common Shares Outstanding
807,643,941 as at December 31, 2006

Stock Splits

Three-for-one on April 26, 1979 and two-for-one on May 15, 1997

*Quarterly Dividend**
$0.365 per common share

*2007 Dividend Schedule**

Record Date	*Payment Date*
March 15, 2007	April 15, 2007
June 15, 2007	July 15, 2007
September 14, 2007	October 15, 2007
December 14, 2007	January 15, 2008

** Subject to approval by the board of directors*

SHAREHOLDER SERVICES

Dividend Reinvestment and Stock Purchase Plan

This plan provides a convenient method for eligible holders of 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.

Manage your Shareholder Account

Enrol in Investor Centre on *www.computershare.com* and benefit from a wide variety of self-service tools to help track and manage your shares.

Duplicate Mailings

Help us control costs and eliminate duplicate mailings by consolidating your accounts.

For more details on any of these services, registered shareholders (shares are registered under your name) 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

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. Fuel, 10-4 and Sympatico are trademarks of Bell Canada; Mobile Browser is a trademark of Bell Mobility Inc.; Nimiq and Anik are trademarks of Telesat Canada; SmartTouch is a trademark of Stentor Resource Centre Inc.; Solo is a trademark of Solo Branding 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



BCE's website has extensive information about the company's governance practices, community investment, and corporate responsibility.

The Bell 2007 Business Update *is available at www.bce.ca/businessupdate.*

BCE Inc. 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 of our reports dated March 7, 2007 relating to the financial statements of BCE Inc., to the reconciliation of Canadian GAAP to United States GAAP and to management's report on internal control over financial reporting appearing in this Annual Report on Form 40-F of BCE Inc. for the year ended December 31, 2006.

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 our reports dated March 7, 2007 relating to the financial statements of BCE Inc., to the reconciliation of Canadian GAAP to United States GAAP and to management's report on internal control over financial reporting appearing in this Annual Report on Form 40-F of BCE Inc. for the year ended December 31, 2006.

(signed) Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants

Montreal, Canada
March 14, 2007

Exhibit 99.3

RECONCILIATION OF CANADIAN GAAP TO UNITED STATES 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

	2006	2005	2004
Canadian GAAP — Earnings from continuing operations	**1,891**	1,834	1,395
Adjustments:			
Deferred costs (a)	**3**	(1)	7
Net benefit plans (b)	**(11)**	(65)	(75)
Equity income (c)	**1**	46	52
Gain on sale of CGI (c)	**59**	—	—
(Losses) gains on investments and derivative instruments (d) (f)	**1**	(1)	13
Gain on the distribution of Bell Aliant Income Fund units (j)	**1,540**	—	—
Capitalized interest (l)	**43**	—	—
Other	**—**	5	—
United States GAAP — Earnings from continuing operations	**3,527**	1,818	1,392
Discontinued operations — United States GAAP (c) (e)	**55**	82	159
United States GAAP — Net earnings before extraordinary gain	**3,582**	1,900	1,551
Extraordinary gain	**—**	—	69
United States GAAP — Net earnings	**3,582**	1,900	1,620
Dividends on preferred shares (d)	**(85)**	(85)	(85)
United States GAAP — Net earnings applicable to common shares	**3,497**	1,815	1,535
Other comprehensive earnings items			
Change in currency translation adjustment	**71**	(17)	(10)
Change in unrealized (loss) gain on investments and derivative instruments (d) (f)	**(20)**	21	(12)
Additional minimum liability for pension obligations (b)	**1,106**	(1,093)	(66)
Discontinued operations — Additional minimum liability for pension obligations (b)	**26**	(19)	(6)
Comprehensive earnings	**4,680**	707	1,441
Net earnings per common share — basic			
Continuing operations	**4.00**	1.87	1.42
Discontinued operations	**0.06**	0.09	0.17
Extraordinary gain	**—**	—	0.07
Net earnings	**4.06**	1.96	1.66
Net earnings per common share — diluted			
Continuing operations	**4.00**	1.87	1.42
Discontinued operations	**0.06**	0.09	0.17
Extraordinary gain	**—**	—	0.07
Net earnings	**4.06**	1.96	1.66
Dividends per common share	**1.32**	1.32	1.20
Average number of common shares outstanding (millions)	**861.4**	926.8	924.6

Statements of Accumulated Other Comprehensive Loss

	2006	2005
Currency translation adjustment	**(2)**	(73)
Unrealized gain on investments and derivative instruments (d) (f)	**5**	25
Net benefit plans (b)		
Additional minimum liability	**—**	(1,279)
Net actuarial losses	**(1,355)**	—
Net past service costs	**(62)**	—
Net transitional obligations	**(95)**	—
Discontinued Operations — Additional minimum liability for pension obligations (b)	**—**	(26)
Accumulated other comprehensive loss	**(1,509)**	(1,353)

Reconciliation of Total Shareholders' Equity

	2006	2005
Canadian GAAP	**13,367**	14,721
Adjustments		
Deferred costs (a)	**(31)**	(35)
Net benefit plans (b)		
Additional minimum liability	**—**	(1,279)
Valuation allowance	**75**	68
Net actuarial losses	**(1,594)**	(223)
Net past service costs	**(62)**	—
Net transitional obligations	**(95)**	—
Goodwill (g)	**68**	63
Discontinued operations (e)	**—**	(28)
Unrealized gain on investments and derivative instruments (d) (f)	**32**	51
Capitalized Interest (l)	**371**	—
Other	**3**	21
United States GAAP	**12,134**	13,359

DESCRIPTION OF UNITED STATES GAAP ADJUSTMENTS

(a) Deferred Costs

Under Canadian GAAP, certain expenses, such as development and pre-operating expenses, can be deferred and amortized if they meet certain criteria. Under United States GAAP, these costs are expensed as incurred.

(b) Net Benefit Plans

Our 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.

Effective December 31, 2006, we adopted the recognition requirements of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, on a prospective basis. This new standard requires us to:

- recognize the funded status of each benefit plan in the balance sheet by aggregating the status of all overfunded plans and recognizing that amount as an asset and aggregating the status of all underfunded plans and recognizing that amount as a liability.
- recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses and past service costs or credits that arise during the period and are not recognized as components of net benefit plans cost.
- recognize corresponding adjustments in other comprehensive earnings when the actuarial gains or losses, prior service costs or credits, and transitional assets or obligations remaining are subsequently recognized as components of net benefit plans cost.

At December 31, 2006, the balance sheet, including additional minimum liability, was adjusted such that actuarial gains or losses, prior service costs or credits, and transitional assets or obligations that have not yet been included in net benefit plans cost at December 31, 2006 were recognized as components of accumulated other comprehensive loss, net of tax. The adjustment at December 31, 2006 resulted in an increase of $1,339 million in accumulated other comprehensive loss.

At December 31, 2006, the total adjustment to the balance sheet relating to employee future benefits resulted in:

- a decrease of $1,086 million in accrued benefit asset
- an increase of $551 million in future income tax asset
- an increase of $1,868 million in accrued benefit liability
- a decrease of $339 million in future income tax liability
- a decrease of $388 million in non-controlling interest
- an increase of $1,512 million in accumulated other comprehensive loss
- a decrease of $164 million in retained earnings.

(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.

On January 12, 2006, CGI bought 100 million of its Class A shares from us and we realized total net proceeds of $849 million. The gain on disposition was $79 million.

On April 6, 2006, we exercised our CGI warrants to acquire Class A shares at a cost of $21 million. In addition, we recorded a loss of $17 million in the second quarter of 2006, which represented a write-down of our remaining investment in CGI, which was available for sale, to fair market value based on its stock price at June 30, 2006.

In addition, in 2006, we recorded a further loss of $1 million, which represented a write-down of our investment in CGI, as a result of the Bell Canada pension fund's acquisition of 31.4 million of our CGI shares.

(d) Accounting for Derivative Instruments and Hedging Activities

Under United States GAAP, all derivatives must be recorded on the balance sheet at fair value. The effective portion of the change in the unrealized gain (loss) on derivative instruments that qualify for cash flow hedge accounting is reported in comprehensive earnings. In addition, any ineffectiveness measured on derivative instruments that qualify

for hedge accounting is reported in net earnings.

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 in the third quarter of 2003. 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. 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 carrying values of the net assets of discontinued operations to be different.

(f) Investments

Our portfolio investments are recorded at cost under Canadian GAAP. Investments acquired principally for the purpose of sale or repurchase in the near term would be classified under United States GAAP as held for trading and would be carried at fair value, with any gains or losses included in earnings. Investments not classified as held for trading or held to maturity 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.

(g) Goodwill

Under Canadian GAAP, certain business combinations recorded in prior years have been accounted for at the carrying value of the underlying assets and liabilities exchanged, whereas under United States GAAP such transactions were recorded on a fair value basis.

(h) Accounting for Stock-Based Compensation

We adopted the fair value-based method of accounting for stock-based compensation 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. We also adopted Statement of Financial Accounting Standards — Revised (SFAS) No. 123(R) which had no impact.

The following table shows compensation expense for stock options and pro forma net earnings using the Black-Scholes option pricing model.

	2006	2005	2004
Net earnings as reported	**3,574**	1,900	1,620
Compensation cost included in net earnings	**8**	17	22
Total compensation cost	**(8)**	(23)	(38)
Pro forma net earnings	**3,574**	1,894	1,604
Pro forma net earnings per common share (basic)	4.05	1.95	1.64
Pro forma net earnings per common share (diluted)	4.05	1.95	1.64

(i) 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, 2006, such indemnifications amounted to $1.2 billion, of which $100 million expires in 2007, $26 million in 2008, $26 million in 2009, $8 million in 2010, $165 million in 2011 and after and $913 million with an indefinite term. We also have guarantees where no maximum potential amount is specified.

(j) Bell Aliant

On March 7, 2006, BCE Inc. and Aliant Inc. (Aliant) announced their intention to form a new regional telecommunications service provider in the form of an income trust. On July 7, 2006 the Plan of Arrangement forming Bell Aliant was completed. Bell Aliant combines Bell Canada's former regional wireline operations in rural Ontario and Quebec with Aliant's former wireline operations and includes Bell Canada's former 63.4% interest in NorthernTel Limited Partnership (NorthernTel) and Télébec Limited Partnership (Télébec), the operating partnerships of the Bell Nordiq Income Fund, held through Bell Nordiq Group Inc. (Bell Nordiq), an indirect wholly-owned subsidiary of Bell Canada.
BCE's ownership of Bell Aliant has been reduced to 44.7% through a distribution of trust units by way of a return of capital to holders of BCE Inc. common shares on July 10, 2006. This distribution resulted in an increase in contributed surplus of $1,547 million for Canadian GAAP as the transaction is deemed to have occurred at carrying value. For US GAAP purposes, the distribution of trust units is deemed to have occurred at fair market value, with any gain or loss recognized in earnings. Therefore, the increase in contributed surplus, adjusted for previously existing US and Canadian GAAP differences, has been recorded as a gain on distribution of trust units in earnings from continuing operations for US GAAP purposes.

(k) Stock issuance costs

Under United States GAAP, stock issue expenses are charged to common stock, whereas under Canadian GAAP they may be charged to Retained Earnings or common stock. For Canadian GAAP purposes, we charge stock issue expenses to Retained Earnings. As at December 31, 2006, a cumulative amount of $65 million of stock issue expenses have been recorded against Retained Earnings.

(l) Comparative Periods

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), to address the observed diversity in quantification practices of unadjusted differences with respect to annual financial statements. SAB 108 requires that misstatements in the current year financial statements be quantified using both a balance sheet and an income statement approach and evaluated as to whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for fiscal years ending after November 15, 2006 and on initial application, permits a one-time cumulative effect adjustment to beginning retained earnings.

Effective December 31, 2006 we adopted SAB 108 and increased our opening retained earnings as at January 1, 2006 as reported under United States GAAP by $328 million relating to the capitalization of borrowing costs. Under Canadian GAAP, we capitalize borrowing costs for significant assets under construction, whereas under United States GAAP borrowing costs must be attributed to all assets under construction and capitalized accordingly.

We also made corrections to prior periods related mainly to embedded derivatives and available-for-sale investments. We recorded gains on embedded derivatives that were previously not included in United States GAAP net earnings. We also reversed unrealized gains on available-for-sale investments in non-public companies previously recorded in other comprehensive income. As a result of the above, we have reduced other comprehensive income by $110 million for 2005, accumulated other comprehensive loss by $110 million at December 31, 2005 and we decreased shareholders' equity by $84 million at December 31, 2005. We also increased United States GAAP net earnings by $1 million for 2005 and $13 million for 2004 and opening retained earnings of $12 million in 2004.

Exhibit 99.4

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS ON RECONCILIATION OF CANADIAN GAAP TO UNITED STATES GAAP

To the Board of Directors and Shareholders of BCE Inc.

We have audited the consolidated financial statements of BCE Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, and have issued our reports thereon dated March 7, 2007; such consolidated financial statements and reports are included in the 2006 Annual Report to Shareholders listed in Exhibit 99.1 on Form 40-F. Our audits also included the reconciliation from Canadian GAAP to United States GAAP of the Company listed in Exhibit 99.3 on Form 40-F. This reconciliation from Canadian GAAP to United States GAAP is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such reconciliation from Canadian GAAP to United States GAAP, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As disclosed in notes (b) and (l) to the reconciliation from Canadian GAAP to United States GAAP, the Company changed its methods of accounting for post-employment benefits and for quantifying errors.

(signed) Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants

Montreal, Canada
March 7, 2007

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   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 14, 2007

(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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   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 14, 2007

(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 that:

The annual report on Form 40-F for the year ended December 31, 2006 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.

(signed) Michael J. Sabia
Michael J. Sabia
President and Chief Executive Officer
BCE Inc.

Dated: March 14, 2007

(signed) Siim A. Vanaselja
Siim A. Vanaselja
Chief Financial Officer
BCE Inc.

Dated: March 14, 2007