

# Wind-down of BCE and creation of Bell Canada Income Fund

**October 11, 2006**



# Safe Harbor Notice

Certain statements made in the attached presentation, such as 2006 financial guidance, the proposal to convert Bell Canada into an income trust ("Trust"), initial cash distributions by the Trust, the targeted payout ratio and other statements that are not historical facts, are forward-looking statements. The results or events predicted in these statements may differ materially from actual results or events. These statements are subject to important risks, uncertainties and assumptions that are summarized below. You are cautioned not to place undue reliance on these forward-looking statements.

*Material Assumptions* - A number of assumptions were made by BCE in preparing the forward-looking information set out in the attached presentation. In particular, we have assumed, among other things, cash available for distribution in 2007 of approximately \$2.1 billion, an initial targeted payout ratio of 85%, and an estimated pro forma number of outstanding units of approximately 812 million. In addition, the Trust's initial cash available for distribution in 2007 reflects a preliminary business outlook for BCE, excluding Bell Aliant, that is based on certain anticipated financial and operational trends and assumptions for 2007. We have also assumed that key drivers of Bell Canada's EBITDA in 2007 would be the following trends and assumptions: ARPU (average revenue per unit) increases and higher EBITDA flow-through in our growth businesses, greater value derived from our traditional businesses as a result of minimizing declines in our long distance services and the stabilization of reductions in our residential NAS, and benefiting from our new cost structure. These financial and operational trends and assumptions for 2007 represent a preliminary business outlook for 2007 and not BCE's formal annual guidance for 2007.

#### *Material Risks*

**Risks Relating to the Arrangement** - The proposed plan of arrangement ("Arrangement") is conditional upon, among other things: (i) shareholder approval, (ii) the receipt of all necessary governmental and regulatory approvals and other security holder approvals and other consents, (iii) dissent rights not being exercised in respect of more than a level of the outstanding common shares approved by the BCE Board, and (iv) there being no change with respect to income tax, telecommunications and other laws or policies that would have a material adverse effect on the transactions contemplated by the Arrangement. In addition, the Boards of each of BCE and Bell Canada will have the discretion to determine not to proceed with the Arrangement. These conditions may not be satisfied, or may not be satisfied on terms satisfactory to BCE or Bell Canada, in which case the proposed Arrangement could be modified, restructured or terminated.

**Risks Relating to the Trust** - The Trust will, for purposes of its income and cash available for distribution, be entirely dependent on its operating affiliates. Although BCE has identified initial annual cash distributions per unit and an initial targeted payout ratio, there can be no assurance regarding the actual amounts of cash that will be distributed or the actual payout ratio. The actual amount of cash distributions paid in respect of the units of the Trust will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of the Trust and BCE. Distributions are not guaranteed and will fluctuate with the performance of the Trust's operating affiliates.

**General Business Risks** - Forward-looking statements made in the attached presentation are also subject to various risks that could adversely affect BCE's businesses and that could cause actual results to differ materially from current expectations. For a description of such other risks, please refer to BCE's MD&A for the year ended December 31, 2005 as updated in BCE's 2006 First and Second Quarter MD&As. BCE's annual guidance for 2006 is also subject to the assumptions outlined in the above documents. Please also refer to BCE's news release dated October 11, 2006 for more details concerning applicable risks and assumptions. The forward-looking statements contained in the attached presentation represent our expectations as of October 11, 2006 and, accordingly, are subject to change after such date. However, we disclaim any intention and assume no obligation to update or revise any forward-looking statement, whether as a result of new information or otherwise.



Michael Sabia  
CEO  
BCE and Bell Canada

# Simplification and value creation

- ▶ **BCE to be eliminated**
- ▶ **Creation of Bell Canada Income Fund**



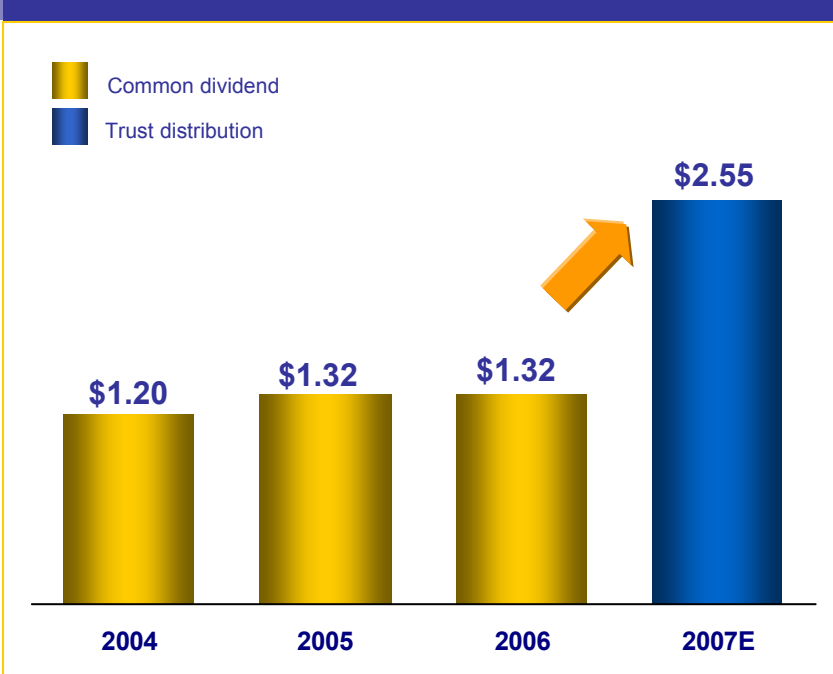
## Rationale for Transaction

- 1 No further need for holding company**
  - BCE asset restructuring largely complete
- 2 Creates value for shareholders from increased cash distributions**
  - Tax liability to increase significantly for 2007
- 3 Maintains competitive capital market structure within telecom sector**
- 4 Improved operational visibility**
  - Business transformation ahead of schedule

# Bell Canada mandate

- ▶ **As a trust, Bell Canada continues to execute its existing strategic plan**
  - Investment in growth services
  - Business transformation
  - Differentiated customer service
- ▶ **Bell Canada initial cash distribution of \$2.55**
  - Increase of \$1.23 vs common dividend
  - Target payout ratio of ~85%
- ▶ **Bell Aliant maintains regional focus**
  - Offer to integrate Bell Nordiq

## Increased Shareholder Distributions



**Continue building next generation telco**



George Cope  
President and COO  
Bell Canada

# Operational progress

## Key Operational Priorities

- ▶ Pricing leadership behaviour
- ▶ Improved brand and marketing execution
- ▶ Distribution effectiveness
- ▶ Regional differentiation
- ▶ Tactical focus on traditional businesses
- ▶ Continued focus on cost reduction



- ▶ ARPU increases across all growth businesses
- ▶ Greater value from traditional business
  - Minimizing LD declines
- ▶ Cost savings ramping up
- ▶ EBITDA margin held stable

**Business transformation well underway**

# Better performance in 2007

## Key Operational Priorities

- ▶ Pricing leadership behaviour
- ▶ Improved brand and marketing execution
- ▶ Distribution effectiveness
- ▶ Regional differentiation
- ▶ Tactical focus on traditional businesses
- ▶ Continued focus on cost reduction



## Continued focus in 2007

- ▶ Continued steady investment in new growth platforms
- ▶ Further marketing innovation
- ▶ Higher EBITDA flow-through on growth businesses
- ▶ Ongoing emphasis on cost savings
- ▶ Residential NAS reductions stabilising



**Improved operating profitability and free cash flow contribution in 2007**

Siim Vanaselja  
CFO  
BCE and Bell Canada

# Benefits of conversion

- ▶ **Significantly enhances tax efficiency**
  - Optimal timing as tax shelters will be fully utilized in 1H 2007
  - Substantial increase in cash taxes to be paid beginning in 2008
- ▶ **Increases future cash flow to fund higher cash distributions, ongoing growth and debt service and repayment**
- ▶ **Corporate structure simplification from elimination of BCE**
- ▶ **Improved cost of capital**

**Significantly increases cash distributions to shareholders**



# Distributable cash flow outlook

(in million \$ unless otherwise indicated)	<b>2007E</b>
<b>EBITDA – Capex <sup>(1)</sup></b>	<b>3,200–3,400</b>
<b>Additional cash costs:</b>	
Net benefit plans	(250)—(275)
Debt service <sup>(2)</sup>	(825)—(875)
Cash taxes	(50)—(75)
<b>Cash available for distribution</b>	<b>~2,100</b>
Initial payout ratio	~85%
Total initial cash distribution	~1,800
Bell Aliant distribution to Bell (based on 2006)	~275
<b>Total cash to be distributed</b>	<b>~2,070</b>
Pro forma # of Units outstanding	~812M
<b>Initial cash distribution per Unit</b>	<b>\$2.55</b>

## Maintains Flexibility

- Payout ratio preserves financial flexibility
- Expect adequate cash reserve in excess of \$300M, growing with the business



<sup>(1)</sup> Excluding Bell Aliant and BGM, proforma Telesat monetization

<sup>(2)</sup> Includes AR securitization costs

# Impact on preferred equity and debt

## Preferred Equity

- ▶ **Tender offer for approximately \$2.8B of BCE and Bell preferred shares**
  - Would otherwise rank behind subordinated debt
  - Use cash balance and proceeds from Telesat monetization

## Long-term Debt

- ▶ **Approximately \$2B of bonds with certain consent rights**
  - Will initiate discussions with bondholders
  - May be refinanced

## Credit Ratings

- ▶ **No change in targets for capital structure**
- ▶ **Rating Agency reviews to result in:**
  - DBRS           A low / stable
  - S&P            BBB+ / stable
  - Moody's       Baa1 / negative
- ▶ **Maintains strong investment grade credit ratings**

## Preferred Shares Financing

### Source of funds (\$B)

Available cash balance	~1.8
Telesat monetization	~1.0
	~2.8

## Capital Structure

	<u>Target</u>	<u>Q2'06</u>
Net Debt/EBITDA	1.5x – 2.0x	1.9x
EBITDA/Interest	≥ 8.0x	7.6x

**Simplifies BCE's capital structure without changing risk profile**



# Financial guidance

- ▶ **Reaffirming 2006 Guidance<sup>(1)</sup>**
- ▶ **Improving performance for 2007**
  - Guidance to be provided December 2006

<b>2006 Financial Outlook</b>	
<b>Bell Canada</b>	
Revenue growth	1% to 3%
Cost savings	\$700M to \$900M
EBITDA margin	Stable
Capital intensity	16% to 17%
<b>BCE</b>	
EPS	\$1.80 to \$1.90
FCF	\$700M to \$900M



(1) Most recently confirmed 2 August, 2006.

# Timeline

Steps	Target Dates
1. Mailing of information circular	December 2006
2. Special meeting of shareholders	January 2007
3. Conclude tender offer for preferred shares	↓
4. Obtain other approvals <ul style="list-style-type: none"><li>• Court approval</li><li>• CRTC approval</li></ul>	
5. Closing and conversion	31 January 2007

- ▶ **Conversion to be effected through Plan of Arrangement**
- ▶ **Requires two-thirds majority shareholder vote**
- ▶ **Straightforward mechanics: exchange for trust units on a 1-for-1 basis**