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2

Second Quarter 2000 – BCE Inc.

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition and results of operations (MD&A) for the second quarter and the first six months of the year 2000 focuses on the results of operations and financial situation of BCE Inc. and its subsidiaries, joint ventures and significantly influenced companies (collectively BCE) by principal operating group of BCE and should be read in conjunction with the unaudited consolidated financial statements contained on pages 31 to 36. Certain sections of this MD&A contain forward-looking statements with respect to BCE. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Factors which could cause actual results or events to differ materially from current expectations are discussed on pages 19 to 30 under "FORWARD-LOOKING STATEMENTS".

HIGHLIGHTS

On June 18, 2000, BCE Inc., Teleglobe Inc. (Teleglobe) and the principal shareholders of Teleglobe reached an agreement to revise certain terms of BCE's initial offer announced on February 15, 2000, to acquire all of the outstanding common shares of Teleglobe it does not already own. Under the revised agreement, BCE provided Teleglobe with immediate financing of US \$100 million and will provide additional financing if required prior to the closing of the transaction. BCE has also agreed to eliminate all conditions of the transaction except those provided by law and material regulatory approvals, and to accelerate the closing of the transaction. Teleglobe common shareholders will receive total consideration equivalent to 0.91 of a BCE common share (including \$0.10 in cash) for each Teleglobe common share they own. Teleglobe common shareholders can also choose to receive, in cash, up to 20% of the total consideration, instead of BCE common shares, based on the price of BCE common shares prior to closing. Outstanding Teleglobe stock options will continue to remain, following the closing of the transaction, in accordance with their original terms and conditions. However, Teleglobe stock option holders will receive, upon exercise of the options, 0.91 of a BCE common share for each Teleglobe stock option held. The transaction is anticipated to close in the fourth quarter of 2000, after regulatory, court and shareholder approvals have been received. Once completed, this acquisition will be accounted for using the purchase method.

On June 7, 2000, Bell Canada International Inc. (BCI) and Telefonos de Mexico S.A. de C.V. (Telmex) announced the signing of a definitive agreement to form a new facilities-based communications company which will be their principal vehicle for expansion in South America. The new company is expected to have an initial capitalization of US \$3.5 billion, which will include the South American assets of BCI and Telmex's investment in the Brazilian wireless company Algar Telecom Leste S.A. (ATL), as well as US \$1.8 billion in cash and cash commitments from the parties. Telmex and BCI will hold an equal economic interest in the newly created company. In addition, on June 14, 2000, SBC Communications Inc. (SBC) announced plans to contribute its economic interest in ATL. SBC expects to hold an initial economic interest of approximately 12% in the newly created company subject to final adjustments at the time of closing. The transaction is subject to certain regulatory and other approvals, and is anticipated to be completed in the fourth quarter of 2000.

On July 26, 2000, BCI sold its 21% stake in Hansol M.com (Hansol) (formerly known as Hansol PCS Co., Ltd.) to Korea Telecom. BCI received gross proceeds in the form of cash, promissory notes and SK Telecom (a Korean mobile wireless operator) shares for an aggregate consideration of approximately \$1.5 billion, which will result in a net gain of approximately \$1.0 billion.

In April 2000, BCE completed the acquisition of all of the outstanding common shares of CTV Inc. (CTV), including the CTV common shares held by Electrohome Broadcasting Inc., for a cash consideration of approximately \$2.3 billion. This acquisition is intended to complement BCE's investments in Sympatico Lycos Inc., BCE Media Inc. and Bell ExpressVu Limited Partnership (Bell ExpressVu). As per the Voting Trust Agreement approved by the Canadian Radio-television and Telecommunications Commission (CRTC), CTV shares acquired under the BCE offer have been transferred to a trustee until such time as the CRTC and other regulatory approvals required in this transaction are received by BCE. As part of the CRTC approval process, an additional 10% (approximately \$230 million) of the value of the transaction will be spent over the course of the license period on initiatives that will benefit the broadcasting industry (benefits package). The cost of the benefits package has been included as part of the purchase price for the acquisition of CTV, for a total purchase price of approximately \$2.5 billion. The acquisition was accounted for using the purchase method. Goodwill of approximately \$1.9 billion is being amortized over 20 years. During the time that these shares are held by the trustee, the investment in CTV will be accounted for using the equity method.

In May 2000, BCE distributed an approximate 35% interest in Nortel Networks Corporation (Nortel Networks) to BCE common shareholders. BCE common shareholders received, for each common share of BCE held, approximately 1.57 post-split common shares of Nortel Networks. Consequently, BCE's results prior to May 2000 reflect its 35% interest in Nortel Networks as a discontinued operation. This transaction was recorded as a distribution (dividend) to shareholders at the pro-rata carrying value of BCE's approximate 37% interest in Nortel Networks prior to the distribution. This resulted in a decrease to investment in Nortel Networks related to the discontinued operations of \$9,964 million, a decrease in retained earnings of \$10,114 million (including transaction costs of \$70 million), and an increase in currency translation adjustment of \$150 million. BCE's remaining interest (approximately 2%) in Nortel Networks is now being recorded as an investment at cost.

RESULTS BY OPERATING GROUP

(\$ millions, except per share amounts)	Second Quarter			Six Months		
<i>For the periods ended June 30</i>	2000	1999	Increase (Decrease)	2000	1999	Increase (Decrease)
REVENUES						
Bell Canada ^{1,2}	3,810	3,524	286	7,438	6,881	557
BCE Emergis and CGI	267	194	73	509	381	128
BCE Media	146	92	54	282	177	105
Bell Canada International	254	188	66	495	383	112
Corporate and Other	20	8	12	41	16	25
Intercompany eliminations	(162)	(132)	(30)	(330)	(205)	(125)
Total revenues	4,335	3,874	461	8,435	7,633	802
Adjustment for Aliant ²	-	(423)	423	-	(758)	758
Total revenues - as reported	4,335	3,451	884	8,435	6,875	1,560
CONTRIBUTION TO NET EARNINGS APPLICABLE TO COMMON SHARES						
Bell Canada ¹ - Operations	281	313	(32)	547	639	(92)
- Special items	(26)	4,129	(4,155)	(47)	4,126	(4,173)
	255	4,442	(4,187)	500	4,765	(4,265)
BCE Emergis and CGI - Operations	12	11	1	20	22	(2)
- Special items	(65)	(16)	(49)	(94)	(57)	(37)
	(53)	(5)	(48)	(74)	(35)	(39)
BCE Media ³ - Operations	(14)	(16)	2	(37)	(33)	(4)
- Special items	(32)	(1)	(31)	(35)	(3)	(32)
	(46)	(17)	(29)	(72)	(36)	(36)
Bell Canada International	(143)	(72)	(71)	(274)	(126)	(148)
Corporate and Other - Operations	27	(15)	42	75	(40)	115
- Special items	-	222	(222)	-	240	(240)
	27	207	(180)	75	200	(125)
Intercompany eliminations	3	(1)	4	5	(2)	7
Earnings from continuing operations	43	4,554	(4,511)	160	4,766	(4,606)
Discontinued operations	-	119	(119)	4,055	(185)	4,240
Net earnings	43	4,673	(4,630)	4,215	4,581	(366)
Dividends on preferred shares	(19)	(24)	5	(42)	(47)	5
Net earnings applicable to common shares	24	4,649	(4,625)	4,173	4,534	(361)
Special items ⁴	266	(4,381)	4,647	(3,605)	(3,995)	390
Cash baseline earnings	290	268	22	568	539	29
NET EARNINGS PER COMMON SHARE						
Continuing operations	0.04	7.05	(7.01)	0.18	7.35	(7.17)
Net earnings	0.04	7.23	(7.19)	6.48	7.06	(0.58)
Cash baseline earnings	0.45	0.42	0.03	0.88	0.84	0.04

¹ Represents the consolidation of Bell Canada Holdings Inc. (BCH) with Bell Canada and its consolidated subsidiaries. BCH owns 100% of Bell Canada. As of June 1, 1999, BCE owns 80% of BCH, the remaining 20% is owned by SBC.

² Effective January 2000, BCE increased its ownership interest in Aliant Inc. (Aliant) from 41% to 53% (approximately 39% held by Bell Canada and approximately 14% held by BCE Inc. as of June 30, 2000) and therefore, in 2000, Aliant is consolidated and included in the Bell Canada segment. For improved comparability, Aliant's revenues for 1999 are also presented on a consolidated basis. An adjustment of \$423 million and \$758 million for the second quarter and first six months of 1999, respectively, is required to reconcile to revenues reported in the unaudited quarterly financial statements.

³ Effective April 2000, the BCE Media segment includes the results of CTV accounted for using the equity method.

⁴ Includes (on an after tax basis) BCE's share of: gains on reduction of ownership in subsidiary and significantly influenced companies; discontinued operations; net gains on disposal of investments; restructuring and other charges; amortization of purchased in-process research and development expense; results of BCI; and goodwill expense which includes the amortization of goodwill for subsidiaries and significantly influenced companies. Starting in the year 2000, goodwill expense is included in "special items". Prior year figures have been restated to conform with the current year's presentation.

OVERVIEW

BCE's cash baseline earnings (net earnings applicable to common shares, excluding special items) increased \$22 million or 8% to \$290 million for the second quarter and \$29 million or 5% to \$568 million for the first six months of 2000 compared with the same periods of 1999. The improved results primarily reflected:

- improved results of \$115 million (\$42 million for the second quarter of 2000) at Corporate and Other driven primarily by higher interest income and lower financing costs;
partially offset by:
- decreased contribution of \$92 million (\$32 million for the second quarter of 2000) at Bell Canada due mainly to the 20% reduction in ownership interest which occurred on June 1, 1999, as a result of a strategic partnership formed between BCE Inc. and Ameritech Corporation (a wholly owned subsidiary of SBC (SBC/Ameritech)).

BCE's net earnings applicable to common shares were \$24 million for the second quarter and \$4,173 million for the first six months of 2000 compared with net earnings applicable to common shares of \$4,649 million and \$4,534 million, respectively, for the same periods of 1999. Included in BCE's net earnings for the second quarter and for the first six months of 2000 were special items of \$(266) million and \$3,605 million, respectively. Special items for the second quarter and for the first six months of 1999 were \$4,381 million and \$3,995 million, respectively.

SPECIAL ITEMS

The special items for the first six months of 2000 related mainly to the following:

- earnings from discontinued operations of \$4,055 million. In May 2000, BCE distributed to BCE common shareholders an approximate 35% ownership interest in Nortel Networks. Accordingly, BCE's share of Nortel Networks' results were classified as discontinued operations, and were no longer included in BCE's cash baseline earnings. Included in the earnings from discontinued operations was a \$4.2 billion dilution gain on the reduction of BCE's ownership interest in Nortel Networks, from 39% to 37%, primarily as a result of Nortel Networks' acquisitions, through the issuance of shares, of Qtera Corporation (Qtera), Clarify Inc. (Clarify), and Promatory Communications Inc. (Promatory) and the issuance of shares by Nortel Networks under its stock option plans;
partially offset by:
- BCE's share of BCI's losses of \$274 million (\$143 million for the second quarter of 2000); and
- goodwill expense of \$165 million (\$117 million for the second quarter of 2000).

The special items for the first six months of 1999 related mainly to the following:

- a \$4.2 billion dilution gain on the reduction of BCE's ownership in Bell Canada from 100% to 80%, as a result of the SBC/Ameritech partnership, for cash proceeds of \$5.1 billion; and
- a \$234 million gain on the sale of BCE's interest in Jones Intercable Inc. (Jones) for net cash proceeds of US \$508 million;
partially offset by:
- loss from discontinued operations of \$185 million (Nortel Networks);

- restructuring and other charges of \$125 million (mainly at Bell Canada);
- BCE's share of BCI's losses of \$126 million (\$72 million for the second quarter of 1999); and
- goodwill expense of \$47 million (\$24 million for the second quarter of 1999).

CONSOLIDATED REVENUES

Total revenues as reported increased \$884 million or 26% for the second quarter and \$1,560 million or 23% for the first six months of 2000 compared with the same periods last year. Total revenues, including Aliant's revenues in 1999, increased \$461 million or 12% for the second quarter and \$802 million or 11% for the first six months of 2000 compared with the same periods last year. These increases were mainly due to strong revenue growth at Bell Canada, BCE Emergis, BCE Media and BCI.

CONSOLIDATED EBITDA

Consolidated EBITDA (earnings before interest expense, income taxes, depreciation and amortization and excluding pension credits) for BCE, including Aliant's results in 1999, increased \$133 million or 9% to \$1.7 billion for the second quarter and \$209 million or 7% to \$3.2 billion for the first six months of 2000 compared with the same periods last year. The increases were mainly attributable to EBITDA growth at Bell Canada, partially offset by a lower EBITDA at BCI.

BELL CANADA

Overview

Bell Canada's results discussed in this MD&A represent the consolidation of BCH with Bell Canada and its consolidated subsidiaries (including Bell Mobility Inc. (Bell Mobility), BCE Nexxia Inc. (carrying on business in Canada under the name Bell Nexxia), Bell ActiMedia Inc. (Bell ActiMedia), Northern Telephone Limited, Northwestel Inc. and Télébec ltée), Bell Canada's equity investments in Manitoba Telecom Services Inc. (MTS) and Teleglobe as well as the consolidation of Aliant's results. In addition, in order to provide more meaningful comparative financial information, results for 1999 have been restated to reflect the consolidation of Aliant at 41%. These entities provide a full range of domestic and international communications services to customers. BCH owns 100% of Bell Canada. As of June 1, 1999, BCE owns 80% of BCH, the remaining 20% is owned by SBC.

On June 29, 2000, Bell Mobility announced it will bid on additional personal communications services (PCS) spectrum at an auction, which is scheduled for November 2000, to be conducted by Industry Canada in order to increase and enhance the availability of its wireless services on a national level.

Bell Canada's contribution to BCE's cash baseline earnings decreased \$32 million or 10% for the second quarter and \$92 million or 14% for the first six months of 2000 compared with the same periods last year, mainly as a result of the 20% reduction of BCE's ownership interest in Bell Canada on June 1, 1999.

Bell Canada's net earnings applicable to common shares increased \$119 million for the second quarter and \$102 million for the first six months of 2000 compared with the same periods last year. The increases reflected mainly higher operating revenues and lower depreciation and amortization expense, partially offset by increases in cash operating and

interest expenses, reduced pension credits, lower other income, and interest on equity-settled notes issued in the fourth quarter of 1999 to fund the additional investment in Bell Mobility.

Bell Canada Operating Revenues

(\$ millions) <i>For the periods ended June 30</i>	Second Quarter			Six Months		
	2000	1999	% change	2000	1999	% change
Local and access services	1,627	1,564	4	3,244	3,029	7
Long distance and network services	1,091	1,092	-	2,195	2,158	2
Wireless services	296	281	5	574	541	6
Terminal sales, directory advertising and other	796	587	36	1,425	1,153	24
Total	3,810	3,524	8	7,438	6,881	8
Number of network access services¹ (thousands)						
<i>At June 30</i>				2000	1999	% change
Residence				8,530	8,433	1
Business				4,656	4,417	5
Total				13,186	12,850	3

¹ Network access services represent, approximately, the number of lines in service.

Local and access services revenues increased \$63 million for the second quarter and \$215 million for the first six months of 2000 compared with the same periods of 1999 mainly due to network access services growth (primarily business line growth), higher **SmartTouch**TM services revenues of 26% for the second quarter and 25% for the first six months of 2000, which were positively impacted by the increased penetration of these services combined with price increases, and increased single line terminal sales.

Long distance and network services revenues were essentially flat for the second quarter and increased \$37 million for the first six months of 2000 compared with the same periods of 1999. Higher long distance services revenues were mainly attributable to increases in long distance settlements (primarily as a result of increased prices on inbound overseas traffic) and long distance service volumes, partially offset by lower average prices which were impacted by the increased penetration of discount calling plans such as **First Rate**TM. The increased penetration of these discount calling plans has led to an increase in long distance service volumes as measured in conversation minutes of 417 million or 10% to 4,464 million for the second quarter and 856 million or 11% to 8,892 million for the first six months of 2000 compared with the same periods last year. Network services revenues also increased for the second quarter and for the first six months of 2000 compared with the same periods last year primarily due to growth in digital frame-relay and other digital data services.

Wireless operating revenues increased \$15 million for the second quarter and \$33 million for the first six months of 2000 compared with the same periods last year resulting mainly from higher cellular and PCS subscriber base, partially offset by lower average revenue per cellular and PCS subscriber. Average revenue per cellular and PCS subscriber decreased from \$53 per month for the second quarter of 1999 to \$44 per month in 2000 reflecting the combined impact of increased competition in the wireless market and the growth in prepaid subscribers.

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First Rate is a trade-mark of Manitoba Telecom Services Inc. Bell Canada is a licensed user.

At June 30, 2000, there were 2,036,000 cellular and PCS subscribers at Bell Mobility, of which 1,453,000 were cellular subscribers and 583,000 were PCS subscribers, reflecting net additions of 156,000 or 8% from March 31, 2000 and 430,000 or 27% from June 30, 1999. Included in the total subscriber base at June 30, 2000 were 603,000 prepaid subscribers compared with 290,000 prepaid subscribers at June 30, 1999.

Terminal sales, directory advertising and other revenues increased \$209 million for the second quarter and \$272 million for the first six months of 2000, compared with the same periods of 1999, principally due to increased data revenues from Bell Nexxia, Internet related services and terminal equipment sales.

Data revenues increased \$148 million or 27% to \$693 million for the second quarter and \$256 million or 24% to \$1,303 million for the first six months of 2000 compared with the same periods last year. The increase in data revenues was primarily due to growth in the provision of Internet related and Internet Protocol (IP)/Broadband services. At June 30, 2000, Bell Canada's high-speed Internet subscribers totaled approximately 109,000. Total Internet subscribers amounted to approximately 609,000 at June 30, 2000 compared with approximately 318,000 subscribers at June 30, 1999.

Data revenues are included in various revenue line items as follows:

- *local and access services* – include digital transmission services such as **MEGALINK™**, network access for Integrated Services Digital Network (ISDN) and Data, as well as Asymmetric Digital Subscriber Line (ADSL);
- *long distance and network services* – include competitive network services; and
- *terminal sales, directory advertising and other* – include national and regional IP data, inter-networking equipment and cabling, and Internet related services.

Bell Canada Operating Expenses

(\$ millions) For the periods ended June 30	Second Quarter			Six Months		
	2000	1999	% change	2000	1999	% change
Cash operating expenses	2,185	2,044	7	4,257	3,952	8
Pension credit	(35)	(52)	33	(64)	(102)	37
Depreciation and amortization	678	684	(1)	1,323	1,367	(3)
Restructuring and other charges	-	267	n.m.	-	267	n.m.
Total	2,828	2,943	(4)	5,516	5,484	1

n.m. : not meaningful

Cash operating expenses

Cash operating expenses increased \$141 million for the second quarter and \$305 million for the first six months of 2000 compared with the same periods of 1999 mainly due to cost increases associated with volume increases.

At June 30, 2000, the total number of employees was 55,396 which reflected an increase of 1,630 employees from June 30, 1999 primarily due to acquisitions by Aliant in the first quarter of 2000 and a higher level of seasonal hiring. Total salaries and wages (including capitalized amounts) were \$713 million for the second quarter and \$1,417 million for the first six months of 2000, representing increases of \$31 million and \$50 million, respectively, compared

MEGALINK is a trade-mark of Stentor Resource Centre Inc. Bell Canada is a licensed user.

with the same periods of 1999, mainly due to the increase in employee base which was impacted primarily by Aliant's business acquisitions.

EBITDA (operating revenues less cash operating expenses)

EBITDA was \$1,625 million for the second quarter and \$3,181 million for the first six months of 2000 representing increases of \$145 million and \$252 million, respectively, compared with the same periods of 1999, as higher operating revenues more than offset increased cash operating expenses.

Pension credit

Bell Canada's pension credit of \$35 million for the second quarter and \$64 million for the first six months of 2000, decreased \$17 million and \$38 million, respectively, compared with the same periods of 1999. The decreases in the pension credit were primarily as a result of the adoption of the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, *Employee Future Benefits*, effective January 1, 2000. (See "ADOPTION OF NEW ACCOUNTING STANDARDS" on page 19).

Depreciation and amortization

Depreciation and amortization expense of \$678 million for the second quarter and \$1,323 million for the first six months of 2000, decreased \$6 million and \$44 million, respectively, compared with the same periods of 1999. The decreases were primarily due to lower net average plant in service and the impact of updated depreciation rates (effective January 2000) for certain outside plant assets.

Restructuring and other charges

In the second quarter of 1999, Bell Canada recorded a pre-tax charge of \$267 million (\$141 million after tax and non-controlling interest) representing restructuring and other charges of \$163 million and \$104 million, respectively. The restructuring charges, mainly employee severance (for approximately 2,600 employees) and directly related incremental costs, resulted principally from the decision to outsource a portion of the Operator Services group, the windup of Stentor Canadian Network Management and cost rationalization within other operating groups. Other charges related mainly to the write-down of the Iridium investment. The restructuring programs are expected to be substantially completed by the end of the year.

Interest Expense

Interest expense of \$256 million for the second quarter and \$507 million for the first six months of 2000 increased \$40 million and \$109 million, respectively, compared with the same periods of 1999. Higher interest expense primarily reflected increased financing costs associated with asset transfers from BCE on June 1, 1999 as part of the strategic partnership formed by BCE and SBC/Ameritech.

Other Expense (Income)

Other expense (including equity in net losses (earnings) of significantly influenced companies) was \$70 million for the second quarter and \$96 million for the first six months of 2000, compared with other income (including equity in net losses (earnings) of significantly influenced companies) of \$21 million and \$14 million, respectively, for the same periods last year. The decrease was mainly due to reduced equity earnings, primarily from Teleglobe.

Hedge of Special Compensation Payments (SCPs)

BCE has granted from time to time options to purchase BCE common shares to officers and key employees of Bell Canada and its subsidiaries. Simultaneously with the grant of an option, the employee may also be granted, by the employer, the right to a SCP. In May 2000, BCE distributed to its common shareholders an approximate 35% interest in Nortel Networks. As a result of this distribution of Nortel Networks common shares, the then outstanding options were divided into options over BCE and over Nortel Networks common shares, and the related SCPs were appropriately adjusted. As a result, SCP right holders now have, for each SCP right held prior to the distribution, SCP rights related to the increase in price of both the BCE and Nortel Networks common shares over the exercise prices of the related options. Bell Canada has designated approximately 5 million Nortel Networks common shares, that it acquired from BCE, as a hedge of its exposure to outstanding rights to SCPs relating to options over Nortel Networks common shares. In addition, during the second quarter, Bell Canada has entered into forward contracts to hedge its exposure to outstanding rights to SCPs related to options over BCE common shares.

Regulatory Decisions

In a letter decision, dated March 9, 2000, the CRTC approved a proposal, filed December 13, 1999, by Bell Canada and other incumbent telephone companies (collectively ILECs), to reduce Direct Connect (switching and aggregation) rates paid by competitors to interconnect with ILEC networks. However, the CRTC denied the ILECs' request to offset reduced Direct Connect revenues with an exogenous adjustment to the price cap index. On March 17, 2000, the ILECs appealed the CRTC's decision asking that the CRTC review and vary that part of its decision that disallowed the exogenous factor adjustment. On May 16, 2000 the CRTC issued a decision that reversed its previous position by allowing the ILECs to partially recover the Direct Connect rate reductions.

On June 19, 2000, approval of Bell Canada's third annual price cap filing was essentially completed with the CRTC's approval of Tariff Notices (TN) 6465 and 6465a. TN 6465 and TN 6465a, which became effective June 19, 2000, will allow Bell Canada to increase prices for single-line residential telephone service for most customers, representing the first such increase for residential customers in over 2 years. Also included as part of the price cap filings were price decreases, filed and approved earlier in the year, for single-line and Private Branch Exchange services (used by businesses of all sizes), as well as digital data services (used primarily by larger businesses).

On June 28, 2000, the Governor In Council (GIC) announced that it had dismissed appeals of Telecom Decisions CRTC 99-15: Unbundled Local Loop Service Order Charges (filed by Call-Net Enterprises Inc.), 99-16: Telephone Service to High Cost Serving Areas (filed by the Governments of Manitoba and Saskatchewan and other parties) and 99-20: Review of Frozen Contribution Rate Policy (filed by AT&T Canada Corp. and other parties). In addition to upholding the CRTC decisions, the GIC also required that the CRTC report annually over a five-year period on the status of telecommunications competition and deployment of advanced services at affordable rates across Canada.

Wage Practices Investigation

Following the rejection, in October 1999, of a tentative settlement regarding the 1994 pay equity complaints which were before the Canadian Human Rights Tribunal (Tribunal) by the members of the Communications, Energy and Paperworkers Union of Canada (CEP) and the Canadian Telephone Employees' Association (CTEA), the hearings before the Tribunal resumed in December 1999 at which time the Tribunal rendered a decision dismissing three of

the preliminary objections that Bell Canada had previously raised. The Tribunal rendered another decision in April 2000, rejecting the final preliminary objection that had been raised by Bell Canada. The Federal Court of Canada rejected the application for judicial review filed by Bell Canada concerning each decision. Bell Canada has appealed both decisions to the Federal Court of Appeal. In the meantime, hearings into the merits of the case have started. Unless the matter is otherwise resolved, hearings and any appeal could last several years.

US West, Unical and Sonigem Litigation

Bell Canada instituted an action for trade-mark infringement seeking a permanent injunction and damages against US West, Inc. (US West), Unical Enterprises, Inc. (Unical) and Sonigem Products Inc. (Sonigem) on February 11, 2000 in the Federal Court of Canada. The action alleges that the Defendants' sales in Canada of telephones and answering machines bearing among others the marks "Northwestern Bell" and the logo "Bell-in-a-circle design" infringe Bell Canada's exclusive rights to BELL trade-marks in Canada.

In their Statements of Defense and Counterclaims, the Defendants allege that Bell Canada's trade-marks are invalid and not distinctive of Bell Canada's products and services and are seeking damages of \$135 million and punitive damages of \$500,000 from Bell Canada for allegedly interfering with their businesses.

On June 16, 2000, the Federal Court of Canada permitted Sonigem to institute a third party claim against US West and Unical alleging that they had warranted Sonigem's use of the "Northwestern Bell" trade-mark in Canada by virtue of a Distribution Agreement and the statutory warranty of lawful use provided for in the *Trade-Mark Act*. US West and Unical have both filed a Defense to this third party claim.

The Defendants' counterclaims, if successful, should not have a material adverse impact on Bell Canada's consolidated financial position. Bell Canada is of the view that these counterclaims are without merit and intends to pursue its original action and vigorously defend itself against these counterclaims.

BCE EMERGIS AND CGI

BCE Emergis Inc. (BCE Emergis) is a provider of network-centric business-to-business exchanges to the health care, financial services, telecommunications and transportation industries. CGI Group Inc. (CGI) is an information technology (IT) services company, which provides e-business services, as well as outsourcing, systems integration, consulting and business solutions to customers worldwide.

BCE Emergis' second quarter 2000 results include the results of United Payors and United Providers Inc. (UP&UP) as of the date of acquisition, March 24, 2000. UP&UP provides, in the United States, claim processing, between insurance companies and health care providers, designed to produce cost savings and to offer benefits for insurance companies while increasing liquidity and improving efficiency in claims submissions for providers.

Revenues at BCE Emergis and CGI increased \$73 million or 38% for the second quarter and \$128 million or 34% for the first six months of 2000 compared with the same periods last year. These increases mainly reflected higher revenues at BCE Emergis of \$82 million for the second quarter and \$118 million for the first six months of 2000, compared with the same periods last year, primarily due to strong growth in the healthcare and financial services sectors resulting mainly from the acquisitions of UP&UP at the end of the first quarter of 2000 and SNS/Assure Corp. and Assure Health Inc. (SNS/Assure Health) in November 1999, as well as internal growth. Subsequent to the UP&UP acquisition, 42% of BCE Emergis' revenues were

generated in the United States, while the healthcare sector generated 52% of total revenues. Revenues at CGI decreased \$9 million for the second quarter while revenues for the first six months of 2000 reflected an increase of \$10 million compared with the same periods of 1999. The second quarter decrease in revenues was reflective of a post-Y2K slowdown in the decision making process related to new investments in IT and delays in the awarding of large outsourcing contracts.

EBITDA was \$33 million for the second quarter, essentially flat compared with last year and \$62 million for the first six months of 2000, \$7 million higher compared with the same period in 1999. EBITDA at BCE Emergis reflected significant increases both on a quarter and a year-to-date basis due to strong revenue growth, while EBITDA at CGI decreased for the second quarter and for the first six months of 2000 compared with the same periods of 1999 due to decreased business activities.

BCE's share of BCE Emergis' cash baseline earnings was \$6 million for the second quarter and \$3 million for the first six months of 2000 compared with cash baseline losses of \$1 million for the same periods last year. The increases were mainly attributable to revenue and EBITDA growth resulting from the UP&UP and SNS/Assure Health acquisitions.

CGI's cash baseline earnings contribution to BCE for the second quarter and for the first six months of 2000 reflected decreases of \$6 million compared with the same periods last year mainly due to the downturn in post-Y2K contracts awarded to CGI.

BCE MEDIA

BCE Media includes Telesat Canada (Telesat), Bell ExpressVu, TMI Communications and Company Limited Partnership as well as Other media interests. These entities deliver satellite entertainment and business services as well as television broadcasting. Effective April 1, 2000, BCE Media also includes CTV, a national broadcaster with a local presence across Canada.

Revenues at BCE Media increased \$54 million or 59% for the second quarter and \$105 million or 59% for the first six months of 2000 compared with the same periods of 1999 mainly due to continued strong revenue growth at Bell ExpressVu driven by significant subscriber increases and higher revenues at Telesat from its new **NIMIQ**TM satellite and work on the Ford Motor Company's US Satellite network.

BCE Media's contribution to BCE's cash baseline earnings was a loss of \$14 million for the second quarter and a loss of \$37 million for the first six months of 2000 compared with losses of \$16 million and \$33 million, respectively, for the same periods last year. Excluding CTV's positive cash baseline contribution of \$17 million, BCE Media's contribution to BCE's cash baseline earnings was a loss of \$31 million for the second quarter and a loss of \$54 million for the first six months of 2000. The increased cash baseline losses reflected mainly the continued cost of expansion of Bell ExpressVu's direct-to-home satellite television service and losses at Other media interests, partially offset by increased earnings at Telesat.

At June 30, 2000, Bell ExpressVu had approximately 526,000 subscribers compared with 232,000 subscribers at June 30, 1999, reflecting an increase of 127%. Average revenue per subscriber at June 30, 2000 was \$45 compared with \$41 at June 30, 1999. The increase was mainly attributable to higher Pay-Per-View and additional channels offered in 2000 contributing to higher revenue service packages.

NIMIQ is a trade-mark of Telesat Canada.

For the quarter ended June 30, 2000, CTV's contribution to BCE's cash baseline earnings amounted to \$17 million. Effective April 2000, CTV is accounted for using the equity method. CTV's revenues were \$218 million for the second quarter of 2000 representing a 63% increase compared with the same period last year due primarily to the consolidation of Netstar, effective April 2000. CTV's EBITDA and net earnings to common shares for the second quarter of 2000 were \$62 million and \$9 million, respectively.

On June 12, 2000, **DirecPC**® Satellite Edition (SE) was made available nationwide from Bell ExpressVu. DirecPC SE is a high-speed Internet service that can download data via satellite to home computers at speeds of up to 400 kilobits per second. Bell ExpressVu is the first to offer high-speed Internet service to virtually anyone in Canada, regardless of what part of the country they live in. Bell ExpressVu anticipates a large demand from business customers for DirecPC SE in rural areas where high-speed Internet service has not been available before now.

BELL CANADA INTERNATIONAL

BCI owns and develops advanced communications companies in markets outside of Canada, with an increasing focus on South America.

BCI's revenues were \$254 million for the second quarter and \$495 million for the first six months of 2000 reflecting increases of \$66 million or 35% and \$112 million or 29%, respectively, compared with the same periods last year. The increases were primarily due to higher revenues at the Asian PCS providers, Hansol and KG Telecommunications Co. Ltd. Of Taiwan (KG Telecom), and the recently launched Latin American competitive local exchange carriers (CLECs) (Axtel S.A. of Mexico and the Vésper Companies of Brazil). Revenues were also enhanced by BCI's increased investment in KG Telecom (in June 1999, BCI increased its effective ownership in KG Telecom from 10% to 20% and began proportionately consolidating its results). The increased revenues generated by the Asian PCS providers and Latin American CLECs were partially offset by lower revenues from Comunicación Celular S.A. Comcel S.A.'s (Comcel) cellular operations. Comcel's operations were affected notably by the devaluation of the Colombian peso against the Canadian dollar, subscriber shifts from postpaid to prepaid coverage and lower average service revenue per subscriber generated during the Colombian economic downturn.

BCI's EBITDA decreased \$26 million for the second quarter and \$67 million for the first six months in 2000 compared with the same periods of 1999 mainly due to early stage losses at BCI's recently launched CLECs in Brazil.

The total number of subscribers in companies in which BCI has an interest was approximately 6.3 million at June 30, 2000, representing an increase of approximately 2.1 million subscribers over June 30, 1999. On a proportionate basis (based on BCI's percentage ownership in each of its operations), the number of subscribers at June 30, 2000 was approximately 1.6 million, representing an increase of approximately 600,000 from June 30, 1999. The increase in total and proportionate subscribers was mainly due to BCI's investment in Hansol, which had approximately 2.7 million subscribers at June 30, 2000 (an increase of approximately 524,000 from June 30, 1999), and KG Telecom, which had approximately 1.8 million subscribers at June 30, 2000 (an increase of approximately 938,000 from June 30, 1999). BCI's operations in Colombia had approximately 795,000 subscribers at June 30, 2000, an increase of approximately 43,000 from June 30, 1999.

DirecPC is a trade-mark of Hughes Electronics Corporation.

BCE's share of BCI's losses were \$143 million for the second quarter and \$274 million for the first six months of 2000 compared with losses of \$72 million and \$126 million, respectively, for the same periods of 1999. The increased losses were primarily attributable to losses incurred by BCI's CLECs in Brazil (the Vésper companies), which launched commercial services in the first quarter of 2000, and higher losses at Comcel. In addition, BCI, as the controlling shareholder, began, in May 1999, to account for 100% of the losses of Comcel. The interest of minority shareholders in such losses would normally be reflected on BCI's balance sheet as a reduction of the non-controlling interest. However, Canadian generally accepted accounting principles (GAAP) require the controlling shareholder to account for 100% of the subsidiary's losses when the non-controlling interest has been eliminated on the balance sheet. The impact to BCE's earnings of recognizing the non-controlling interest in such losses was \$25 million for the second quarter of 2000 and \$46 million on a year-to-date basis.

CORPORATE AND OTHER

Corporate and Other income – net (excluding special items) was \$27 million for the second quarter and \$75 million for the first six months of 2000 compared with Corporate and Other expenses – net (excluding special items) of \$15 million and \$40 million, respectively, for the same periods last year. The increases were mainly due to higher interest income and lower financing costs. Higher interest income resulted from the interest on the proceeds from the sale of BCE's 20% interest in Bell Canada on June 1, 1999 and on the \$5.1 billion intercompany loans between BCE and Bell Canada (primarily due to the Bell Canada reorganization on June 1, 1999 resulting from the strategic partnership formed by BCE and SBC/Ameritech). Lower financing costs were mainly due to the repayment of debt funded by the proceeds from the sale of Jones in April 1999, and the 20% sale of Bell Canada.

BCE has granted from time to time stock options with accompanying rights to SCPs to officers and key employees of BCE and its subsidiaries. As a result of the distribution (dividend) of Nortel Networks common shares, the then outstanding options were divided into options over BCE and over Nortel Networks common shares, and the related SCPs were appropriately adjusted. As a result, SCP right holders now have, for each SCP right held prior to the distribution, SCP rights related to the increase in price of both the BCE and Nortel Networks common shares over the exercise prices of the related options. BCE has designated 6.5 million Nortel Networks common shares (which includes 5 million held by Bell Canada as discussed on page 10) as a hedge of its exposure to outstanding rights to SCPs related to the options over the Nortel Networks common shares. In addition, BCE has entered into forward contracts to hedge its exposure to outstanding SCP rights related to options over BCE common shares.

DISCONTINUED OPERATIONS (NORTEL NETWORKS)

Discontinued operations, on the statement of operations, reflected BCE's share of Nortel Networks' net earnings to common shareholders, as well as gains on the reduction of BCE's ownership in Nortel Networks. Nortel Networks' contribution to BCE's net earnings applicable to common shares was \$4,055 million for the first six months of 2000 compared with a loss of \$185 million for the first six months of 1999. The \$4,240 million increase was mainly due to a \$4.2 billion dilution gain on the reduction of BCE's ownership interest in Nortel Networks, from 39% to 37%, primarily as a result of Nortel Networks' acquisitions, through the issuance of shares of Qtera, Clarify and Promatory, and the issuance of shares by Nortel Networks under its stock option plans.

LIQUIDITY AND CAPITAL RESOURCES

BCE CONSOLIDATED

The principal components of BCE's consolidated cash flows include:

(\$ millions)	2000	1999
<i>For the six months ended June 30</i>		
Cash flows from operating activities	918	744
Cash flows (used in) from investing activities	(5,644)	3,597
Cash flows from financing activities	2,635	893

Consolidated cash flows from operating activities for the first six months of 2000 were \$918 million compared with \$744 million for the first six months of 1999, mainly due to Bell Canada.

Consolidated cash flows used in investing activities for the first six months of 2000 were \$5,644 million compared with cash flows from investing activities of \$3,597 million for the first six months of 1999. Investing activities for the first six months of 2000 consisted principally of capital expenditures of \$1,811 million (\$1,602 million in 1999) and investments of \$3,911 million (\$770 million in 1999). Investments in 2000 comprised mainly of the \$2.3 billion investment in CTV (not including the benefits package of \$230 million), the \$780 million investment in UP&UP, and a \$498 million investment (net of cash acquired) in Aliant. Investments in 1999 consisted mainly of the \$339 million investment in MTS and a \$185 million investment in Teleglobe. In addition, in the first six months of 1999, cash flows from investing activities included divestitures of \$5,938 million comprising the \$5.1 billion of proceeds received on the sale of 20% of Bell Canada to SBC/Ameritech and the US \$508 million (\$763 million) on the sale of Jones.

Consolidated cash flows from financing activities were \$2,635 million for the first six months of 2000 compared with \$893 million for the same period last year. The increase resulted mainly from a higher level of notes payable issued in 2000 primarily to fund the CTV acquisition, and the issuance of \$400 million of Bell Canada preferred shares in the first quarter of 2000, partially offset by a higher level of dividends paid by subsidiaries to non-controlling interest (mainly as a result of dividends paid by Bell Canada to SBC/Ameritech), the issuance of \$400 million of convertible debentures by BCI in the first quarter of 1999 and a redemption of \$295 million of preferred shares by Bell Canada in the first quarter of 2000.

A discussion of the liquidity and capital resources of Bell Canada, BCI, and Corporate and Other is outlined below.

BELL CANADA

The principal components of Bell Canada's cash flow include:

(\$ millions)	2000	1999
<i>For the six months ended June 30</i>		
Cash flows from operating activities	1,201	860
Cash flows used in investing activities	(1,508)	(2,022)
Cash flows from financing activities	59	1,084

Cash flows from operating activities for the first six months of 2000 were \$1,201 million, \$341 million higher compared with the same period last year, mainly due to lower working capital requirements.

Cash flows used in investing activities were \$1,508 million for the first six months of 2000, representing a decrease of \$514 million compared with the same period of 1999. This change was mainly attributable to a higher level of investments for the first six months of 1999. Bell Canada's investments for the first six months of 2000 totaled \$171 million compared with investments of \$582 million for the first six months of 1999, consisting mainly of a \$339 million investment in MTS and a \$185 million investment in Teleglobe. Capital expenditures for the first six months of 2000 of \$1,385 million were essentially flat compared with the same period last year as decreases in information systems and information technology spending on system implementation were offset by the continued deployment of high-speed Internet service and local infrastructure upgrading due to increased data demand.

Cash flows from financing activities were \$59 million for the first six months of 2000 compared with \$1,084 million for the same period last year. The change was mainly attributable to a higher level of notes payable issued in 1999 to finance investments, higher dividends paid on common shares in 2000, partially offset by a net increase in preferred shares for the first six months of 2000 as discussed in more detail below. In addition on June 1, 1999, as part of the strategic partnership formed by BCE and SBC/Ameritech and the resulting reorganization of Bell Canada, Bell Canada assumed \$3.1 billion of debt due to BCE and issued \$2.0 billion of new debt to BCE. These debts were repaid on June 1, 1999, using the \$5.1 billion of cash proceeds received from the issuance of BCH common shares to SBC/Ameritech.

During the first six months of 2000, Bell Canada issued \$850 million of MTN Debentures, pursuant to its medium-term debenture program, consisting of \$200 million 6.65% Debentures, Series M-5 maturing March 1, 2006, \$300 million 6.00% Debentures, Series M-6 maturing May 1, 2003 (which may be extendible on such date by means of an exchange privilege exercisable at the holders' option for an equal principal amount of newly issued 6.55% Debentures, Series M-3, maturing on May 1, 2029) and \$350 million 6.70% Debentures, Series M-7 maturing June 28, 2007. The proceeds from the issuance of the MTN Debentures were used mainly to repay \$846 million of long-term debt, consisting primarily of a repayment of \$616 million of a senior unsecured note due to BCE and a \$125 million repayment of Series EE Debentures. In addition, in January 2000, Bell Canada issued \$400 million Cumulative Redeemable Class A Preferred Shares Series 15 at a price of \$25 per share and an initial yield of 5.50%. Part of the proceeds from the issuance of the Series 15 Preferred Shares were used to redeem Bell Canada's Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 11 (\$150 million) and Series 13 (\$145 million). For the remainder of 2000, long-term debt totaling approximately \$555 million will mature and \$100 million Cumulative Redeemable Retractable Reset Class A Preferred Shares Series 10 will be redeemed on August 15, 2000. In addition, Bell Canada is considering, subject to prevailing economic conditions, the redemption of \$435 million of its preferred shares, which include the above-mentioned Series 10 Preferred Shares, and the repayment, prior to maturity, of approximately \$200 million of notes due to BCE. Bell Canada's cash requirements during the remainder of 2000, including the financing of capital expenditures and investments, are expected to be met by internally generated funds and by the issuance of debt or equity.

On June 29, 2000, Bell Mobility announced it will bid on additional PCS spectrum at an auction, which is scheduled for November 2000, to be conducted by Industry Canada in order to increase and enhance the availability of its wireless services on a national level. While auction prices have been exceptionally high, compared to traditional licensing fees, in some jurisdictions, e.g. the United Kingdom's April 1999 spectrum auction, it is not possible to speculate with any degree of certainty how price levels in Canada will equate.

On March 27, 2000, Bell Canada announced plans to invest \$1.5 billion over three years to rapidly expand and enhance high-speed Internet availability for Bell Canada's residential and business customers. Bell Canada's high-speed Internet services are enabled by both Digital

Subscriber Line (DSL) and optical fibre technologies. The \$1.5 billion investment will be used to upgrade and expand DSL as well as other technologies, and to upgrade Bell Canada's access network using optical fibre and to extend optical fibre into Bell Canada's residential access network in order to accelerate its high-speed Internet connectivity in order to reach 70% of its residential and business customers by the end of 2000 and over 85% by the end of 2002.

On June 30, 2000, outstanding third party commercial paper totaled approximately \$752 million. The commercial paper program is supported by committed lines of credit, extended by several banks, totaling \$1.8 billion.

BELL CANADA INTERNATIONAL

The principal components of BCI's cash flows include:

(\$ millions)		
<i>For the six months ended June 30</i>	2000	1999
Cash flows used in operating activities	(72)	(26)
Cash flows used in investing activities	(342)	(339)
Cash flows from financing activities	410	566

BCI's cash flows used in operating activities for the first six months of 2000 were \$46 million higher compared with the same period in 1999. The change was mainly due to higher operating losses, partially offset by lower working capital requirements.

Cash flows used in investing activities for the first six months of 2000 increased slightly by \$3 million compared with last year as increased capital expenditures in 2000 mainly related to BCI's start-up operations in Brazil and Mexico were essentially offset by the repayment of a short-term advance previously issued to a related party, and a higher level of investments in 1999 primarily consisting of BCI's increased stake in Hansol.

Cash flows from financing activities for the first six months of 2000 were \$156 million lower compared with last year primarily due to a higher level of long-term debt issued in 1999 mainly relating to the issuance of convertible unsecured subordinated debentures of \$400 million (\$150 million to Nortel Networks) in February 1999, partially offset by a higher level of short-term debt in 2000.

CORPORATE AND OTHER

Investments for the first six months of 2000 totaling \$3,865 million consisted primarily of:

- an investment of \$2,300 million (not including the benefits package of \$230 million) in CTV;
- an additional investment of \$800 million in BCE Emergis, consisting of an equity investment of \$650 million and convertible debentures of \$150 million to fund the UP&UP acquisition;
- a total investment of \$498 million in Aliant by BCE Inc. consisting of a \$392 million investment (net of cash acquired) in the first quarter of 2000, which increased BCE's approximate ownership interest in Aliant from 41% to 53% and an additional investment of \$106 million for the second quarter of 2000 in order for BCE to maintain its approximate 53% ownership interest in Aliant, due to Aliant's common share financing for approximately \$200 million; and

- an investment of US \$100 million (\$147 million) in Teleglobe preferred shares during the second quarter of 2000 as part of its committed funding of up to US \$1.0 billion.

Cash flows from financing activities included:

- the issuance of notes payable of \$1,460 million by BCE Inc.;
- dividends to common and preferred shareholders totaling \$454 million for the first six months of 2000 compared with \$484 million for the first six months of 1999 (reflecting the reduction of BCE's common dividend per share of \$1.36 to \$1.20 in the second quarter of 2000 in connection with the distribution of an approximate 35% interest in Nortel Networks);
- the issuance of 873,679 common shares for \$31 million through BCE Inc.'s stock option plan during the first six months of 2000; and
- the repayment of BCE Inc.'s \$173 million Series 13 Notes in the first quarter of 2000.

Outstanding commercial paper totaled approximately \$1.5 billion at June 30, 2000. The commercial paper program is supported by lines of credit, extended by several banks, totaling \$1.8 billion.

During the second quarter of 2000, BCE entered into forward contracts, for up to one year, with several financial institutions to hedge its exposure to fluctuations in the market price of Nortel Networks common shares. As a result of these contracts, approximately 46.4 million of BCE's 60 million Nortel Networks common shares have been hedged at an average price of approximately \$90 per share. Furthermore, BCE may, depending on market conditions, enter into additional derivative transactions with respect to its remaining Nortel Networks shares for a total of up to 53.5 million shares. BCE currently intends to use the hedged value of the Nortel Networks shares to secure in one or more transactions net proceeds of approximately \$5 billion in long-term debt financing. The forward contracts will in effect become part of the long-term financing arrangements. BCE anticipates the long-term debt financing to be in place prior to the end of the year. The terms and conditions of the long-term financing have not yet been determined. The remaining 6.5 million Nortel Networks common shares have been designated as a hedge of BCE's exposure to outstanding rights to SCPs as discussed on page 14.

CREDIT RATINGS

Following BCE Inc.'s announcement in February 2000 of its proposed acquisition of Teleglobe, Moody's Investors Service downgraded BCE Inc.'s long-term debt rating from A1 to A2 and confirmed BCE Inc.'s commercial paper rating of Prime-1, with both ratings placed under review for possible downgrade. **Standard & Poor's**TM Ratings Group, **Dominion Bond Rating Service**TM (DBRS) and **Canadian Bond Rating Service**TM (CBRS) confirmed BCE Inc.'s credit ratings with a Stable outlook.

Following BCE Inc.'s announcement of its acquisition of CTV, DBRS and CBRS confirmed BCE Inc.'s ratings with a Stable outlook.

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Dominion Bond Rating Service is a trade-mark of Dominion Bond Rating Service Ltd.

Canadian Bond Rating Service is a trade-mark of C.B.R.S. Inc.

ADOPTION OF NEW ACCOUNTING STANDARDS

On January 1, 2000, BCE adopted the recommendations of the new CICA Handbook Section 3465, *Income Taxes*, which changed the accounting for income taxes. BCE applied the new recommendations retroactively, without restating prior years. The deferral method, which focused on the income statement, was replaced with the liability method of tax allocation, which focuses on the balance sheet. The cumulative effect of adopting the new recommendations was to decrease retained earnings by \$75 million.

On January 1, 2000, BCE adopted the recommendations of CICA Handbook Section 3461, *Employee Future Benefits*, which changed the accounting for pension and other types of employee future benefits. Previously, the costs of postemployment and postretirement benefits other than pensions were charged to earnings in the period in which they were paid. The new Handbook section requires companies to accrue the costs over the working lives of employees in a manner similar to pension costs. BCE applied the new recommendations retroactively, without restating prior years, by reflecting recognized and unrecognized amounts for all its benefit plans, consistent with United States GAAP. The cumulative effect of adopting the new recommendations as at January 1, 2000, was to decrease retained earnings by \$722 million.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, including statements which may contain words such as “anticipate”, “could”, “expect”, “seek”, “may”, “intend”, “will”, and similar expressions, and statements that are based on current expectations and estimates about the markets in which BCE Inc. and its subsidiaries, joint ventures and significantly influenced companies (the “BCE Group companies”) operate and management’s beliefs and assumptions regarding these markets, constitute forward-looking statements within the meaning of the “safe harbor” provision of the United States *Private Securities Litigation Reform Act* of 1995, with respect to the financial condition, results of operations and business of the BCE Group companies. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by or on behalf of one or more of the BCE Group companies. Such statements are subject to important risks, uncertainties, and assumptions which are difficult to predict. The results or events predicted in these written or oral statements may differ materially from actual results or events. Certain of the factors which could cause results or events to differ from current expectations are discussed below under the headings “RISK FACTORS” and “IMPACT OF THE YEAR 2000 ISSUE (YEAR 2000 READINESS DISCLOSURE)”. The risk factors discussed below relate primarily to BCE Inc.’s principal operating units, namely, Bell Canada, BCE Emergis and CGI, BCE Media, and BCI. BCE Inc. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

The BCE Group companies’ future operating results may be affected by various trends and factors which must be managed in order to achieve favourable operating results. In addition, there are trends and factors beyond the BCE Group companies’ control which affect their operations. Such trends and factors include adverse changes in the conditions in the specific markets for the BCE Group companies’ products and services, the conditions in the broader market for communications and the conditions in the domestic or global economy generally.

The BCE Group companies participate in a highly volatile and rapidly growing telecommunications industry which is characterized by vigorous competition for market share and rapid technological development. These factors could result in aggressive pricing practices and growing competition both from start-up and well capitalized companies.

In addition, changes in laws or regulations governing the Internet and Internet commerce, as well as the Internet economy growing at a slower pace than is currently anticipated, could also have a material adverse effect on the BCE Group companies' business, operating results and financial condition.

For a description of Bell Canada's Year 2000 program and risks associated with the Year 2000 issue, see "IMPACT OF THE YEAR 2000 ISSUE (YEAR 2000 READINESS DISCLOSURE)" in this MD&A.

RISK FACTORS

In addition to the other risk factors outlined in this document, the following additional factors should be considered. Collectively these factors increase the risks for the BCE Group companies.

Stock Price Volatility

The common shares of BCE Inc. have experienced substantial price volatility in recent months generally due to certain announcements affecting BCE Inc. and the BCE Group companies.

Variations between BCE's actual or anticipated financial results and the published expectations of financial analysts may also contribute to this volatility. In addition, the stock market has experienced extreme price fluctuations that have affected the market price of many technology companies in particular and that have often been unrelated to the operating performance of these companies.

These factors, as well as general economic and political conditions, may also have a material adverse effect on the market price of BCE Inc.'s common shares.

Bell Canada

Expenditures, capital and demand for services

The level of expenditures necessary to maintain quality of service, the availability and cost of capital, and the extent of demand for telephone access lines, optional services, basic long distance services, wireless services and new and emerging services, in the markets served by Bell Canada and its subsidiaries and significantly influenced companies (the "Bell Canada Group companies"), constitute factors which could materially affect their results of operations and financial condition in the future. The level of expenditures could materially increase as the Bell Canada Group companies seek to expand the scope and scale of their businesses beyond traditional territories and service offerings. Furthermore, as the Bell Canada Group companies incur additional expenditures to update their networks, products and services to remain competitive, they may be exposed to incremental financial risks associated with newer technologies that are subject to accelerated obsolescence.

Economic fluctuations

The Bell Canada Group companies' performance is affected by the general condition of the economy, with demand for services and the amount of use tending to decline when economic growth and retail activity decline. It is not possible for the Bell Canada Group companies to accurately predict economic fluctuations and the impact of such fluctuations on their performance.

Increasing competition

With the advent of competition in the local service market in 1998, all parts of the Bell Canada Group companies' businesses are facing substantial and intensifying competition. Factors such as product pricing and service are under continued pressure while the necessity to reduce costs is ongoing. The Bell Canada Group companies must not only try to anticipate, but must also respond promptly to, continuous and rapid developments in their businesses and their markets.

In addition, the significant growth and size, as well as the increasing global scope, of the telecommunications industry are attracting new entrants and encouraging parties other than existing participants to expand their services and their markets. Mergers and acquisitions, as well as alliances and joint ventures, are creating new or larger participants with broad skills and significant resources which will further impact the competitive landscape. Current and future competitors are coming not just from within Canada, but also globally, and include not only major telecommunications companies, such as TELUS Corporation (formerly known as BCT.TELUS Communications Inc., an associate company of Verizon Communications (the company resulting from the merger of GTE Corp. and Bell Atlantic Corp.)), AT&T Canada Inc. (AT&T) and Sprint Canada Inc., but also cable companies, Internet companies, wireless service providers and other companies that offer network services, such as providers of business information systems and systems integrators, as well as an increasing number of other companies that deal with or have access to customers through various communications networks. Many of these companies are significant in size and resources and have a significant market presence with brand recognition and existing customer relationships. In addition, as the Bell Canada Group companies selectively expand internationally, the number and strength of competitors will also increase.

The Canadian wireless telecommunications industry is highly competitive. Bell Mobility competes directly with other wireless service providers with aggressive product and service introductions, pricing and marketing. Bell Mobility expects competition to continue to increase through the development of new technologies, products and services.

On June 28, 2000, Industry Canada released its policy and licensing procedures which will govern the auction of the 40 MHz of PCS spectrum currently held in reserve. Industry Canada has determined that the spectrum will be sub-divided into four blocks of 10 MHz to be authorized as regional licenses. The policy also determined that, subject to meeting Canadian ownership and control regulations and the provisions of the PCS spectrum cap, any entity would be permitted to participate in the auction. Pursuant to the policy, Bell Mobility is eligible to bid on spectrum outside its traditional service area, e.g. in British Columbia and Alberta, as well as in Ontario and Quebec. Existing competitors as well as new entrants are expected to participate in the auction which is expected to commence in November 2000. The number of competitors may increase if new entrants win licenses or if wireless system operators choose to sell wireless services in bulk to other competitors for resale to the public. Although Bell Mobility has indicated that it intends to participate in the spectrum auction, there can be no assurance that Bell Mobility will win any additional licenses.

The market for paging services in Canada is also highly competitive. Bell Mobility currently competes with numerous other local and national paging companies.

Bell Mobility is a participant in Mobility Canada, which is owned and operated by the wireless affiliates or divisions of Canada's major telephone companies. In May 1999, Mobility Canada announced a significant restructuring of its organization, creating two groups of carriers which can compete anywhere in the country to bring the fast-evolving benefits of wireless communications to national customers. The new agreement, which was implemented in the first

quarter of 2000, changes the wireless landscape in Canada by removing restrictions that kept Mobility Canada members from competing in each other's territories. The new groups will each be able to offer Canada-wide wireless service, either by selling network services to each other or competing head-to-head. Although the new arrangement will permit Bell Mobility to expand its business from a territorial perspective, it will also have the effect of increasing competition in the territory in which Bell Mobility currently operates. There can be no assurance that Bell Mobility will be able to successfully expand its operations geographically or that it will be able to successfully compete with new competitors in its traditional territory. These factors could, in the future, have a material adverse effect on Bell Mobility's financial condition and results of operations.

Technology

The telecommunications industry, as with many others, is characterized by rapidly changing technology with the related changes in customer demands and the need for new products and services at competitive prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. The Bell Canada Group companies' future success will be impacted by their ability to anticipate, invest in and implement new technologies with the levels of service and prices that consumers demand. Technological advances may also affect the Bell Canada Group companies' level of earnings by shortening the useful life of some of their assets. Furthermore, technological advances may well emerge that reduce or replace the costs of plant and equipment and eliminate or reduce barriers that deter other companies from competing in particular market segments.

The wireless telecommunications industry is experiencing significant technological change, as evidenced by the increasing pace of digital and other upgrades to existing analog wireless systems, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products, and enhancements to and changes in end-user requirements and preferences. Such continuing technological advances make it difficult to predict the extent of future competition with cellular and PCS and paging services. As a result, there can be no assurance that existing, proposed or as yet undeveloped technologies will not become dominant in the future and render cellular, PCS or paging systems less profitable or even obsolete.

The operations of Bell Mobility depend in part upon the successful deployment of continually evolving wireless communications technologies, which will require significant capital expenditures to deploy. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance. Bell Mobility may be required to make more capital expenditures than are currently expected if suppliers fail to meet anticipated schedules, if a technology's performance falls short of expectations, or if commercial success is not achieved.

Decisions of the CRTC

During 1997, the CRTC released several important decisions which set out the rules for the evolution to total competition in Canada's telecommunications industry. Included in these decisions were those related to the introduction of local service competition, the implementation of price cap regulation, forbearance from long distance and forbearance for some segments of the private line market. Regulatory policies have continued to evolve since these decisions in keeping with continued intense competition across all lines of business coupled with the rapid pace of technological change (as previously discussed). Regulation will continue to have a significant impact on the Bell Canada Group companies' results in the future.

Regulation

The operation of cellular, PCS and other radio-telecommunications systems in Canada is subject to initial licensing requirements and the oversight of Industry Canada. Operating licenses are issued at the discretion of the Minister of Industry pursuant to the Radiocommunication Act. Industry Canada grants cellular and PCS licenses for a maximum term of five years. Bell Mobility's cellular and PCS licenses will expire on March 31, 2001 and April 30, 2001, respectively. Industry Canada has the authority at any time to require modifications to the license conditions applicable to the provision of such services in Canada to the extent necessary to ensure the efficient and orderly development of radiocommunication facilities and services in Canada. Industry Canada can revoke a license at any time for failure to comply with its terms. At this time, Bell Mobility knows of no reason why its current licenses will not be renewed as they expire.

On November 5, 1999, Industry Canada released its decision in its review of the PCS Spectrum Cap. Industry Canada has increased the cap, from its current level of 40 MHz, to 55 MHz. Industry Canada stated that the increased cap is intended to help address capacity constraints, i.e. in Toronto and Montreal, as well as to assist in the development of third generation PCS services. As noted earlier, Industry Canada will be conducting an auction for the remaining 40 MHz of PCS spectrum in the C and E blocks which is expected to be completed in the fourth quarter of 2000.

PCS operations

Bell Mobility launched PCS service in October 1997. Bell Mobility is continuing to incur significant costs to develop a PCS customer base including capital expenditures, promotional offerings and handset subsidies. Competition is intense in the PCS market with at least four PCS service providers in each service area. In addition, increases in Bell Mobility's PCS customer base will result in the reduction, over time, of Bell Mobility's existing cellular customer base. In particular, Bell Mobility has focused on migrating its existing high-usage cellular customers to PCS. While Bell Mobility believes its PCS operations will eventually become profitable and generate positive cash flow, building its PCS customer base will continue to adversely affect Bell Mobility's profitability in the short to medium term.

Radio frequency emission concerns

Media reports have suggested that certain radio frequency emissions from cellular telephones may be linked to certain medical conditions such as cancer. In addition, certain interest groups have requested investigations into claims that digital transmissions from handsets used in connection with digital wireless technologies pose health concerns and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material effect on Bell Mobility business or will not lead to governmental regulation. The actual or perceived health risks of wireless communications devices could adversely affect wireless communications service providers through reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the wireless communications industry.

BCE Emergis and CGI

Competition

The IT services and e-commerce businesses are intensely competitive and both BCE Emergis and CGI have many competitors with substantial financial, marketing, personnel and technological resources, competing for the same contracts. Other companies offer products and

services that may be considered by customers to be acceptable alternatives to BCE Emergis' and CGI's products and services.

Principal competitors of CGI include IBM Global Services, EDS-Systemhouse Inc. and Andersen Consulting. Although BCE Emergis does not believe that there is a single competitor offering an integrated suite incorporating all of its services, it faces competition for each of its individual services from various competitors. Furthermore in some areas, BCE Emergis may compete with internal groups of major organizations. BCE Emergis and CGI expect that other competitors will develop over time. Some of these will be companies that are not currently in their markets and others will be new companies. Competitive pressures could reduce BCE Emergis' and CGI's market share or require them to reduce their prices which would reduce their revenues.

Technological changes

The business markets in which BCE Emergis and CGI operate are characterized by rapid technological changes, changing client needs, frequent new product introductions and evolving industry standards. BCE Emergis' and CGI's future success will depend in significant part on their ability to anticipate industry standards, continue to apply advances in technologies, enhance their current products and services, and develop and introduce new products and services on a timely basis that keep pace with technological developments and changing client needs. However, there can be no assurance that BCE Emergis and CGI will be successful in developing and marketing new products and services, or product enhancements, that respond to technological change and achieve market acceptance.

Dependence and availability of key personnel

BCE Emergis' and CGI's success is largely dependent upon their ability to attract and retain highly skilled personnel and the loss of the services of key persons could materially harm their businesses and operating results. Competition in the recruitment of highly qualified personnel in the computer software and e-commerce industries is intense and the turnover rate for them is high. No assurance can be given that BCE Emergis and CGI will be able to retain key employees or that they will be able to attract qualified personnel in the future.

Growth through acquisitions

A key element of BCE Emergis' and CGI's growth strategy has been strategic acquisitions. There can be no assurance that in the future, acquisition candidates will be found on acceptable terms or that BCE Emergis and CGI will have adequate resources to consummate any acquisition. Furthermore, acquisitions involve a number of other special risks, including time and expenses associated with identifying and evaluating acquisitions, the diversion of management's attention, the difficulty in integrating operations, the difficulty in combining different company cultures and the potential loss of key employees of the acquired company. In addition, customer satisfaction or performance problems at a single acquired firm could have a material adverse effect on the reputation of CGI or BCE Emergis as a whole.

Acquisitions may also result in potentially dilutive issuance of equity securities, the incurrence of debt, the write-off of research and development and capitalized product costs, integration costs and the amortization of expenses related to goodwill and other intangible assets, all of which could have a material adverse effect on the results of operation and financial condition of CGI or BCE Emergis.

BCE Emergis – Adoption of e-commerce

In order for BCE Emergis to be successful, e-commerce must continue to be widely adopted in a timely manner. Because e-commerce, and communications over the Internet in general, are new and evolving, it is difficult to predict the size of this market and its sustainable growth rate. To date many businesses and consumers have been deterred from utilizing the Internet for a number of reasons, including but not limited to:

- security risks in transmitting and storing confidential information, including concerns relating to the potential for merchant impersonation and fraud or theft of stored data and information communicated over the Internet;
- inconsistent quality of service;
- lack of availability of cost-effective, high-speed service;
- inability to integrate business applications on the Internet;
- the need to operate with multiple and frequently incompatible products; and
- a lack of tools to simplify access to and use of the Internet.

To the extent that e-commerce continues to experience significant growth both in the number of users and the level of use, the Internet infrastructure may not be able to continue to support the demands placed on it by continued growth. Such continued growth could affect the Internet's technological ability to effectively support the high volume of transactions and any of these factors could materially harm BCE Emergis' business and operating results.

Businesses which have invested substantial resources in other methods of conducting business may be reluctant to adopt new methods. Also, businesses with established patterns of purchasing goods and services and effecting payments may be reluctant to change.

BCE Emergis – Operating results

Although BCE Emergis had strong revenue growth in 1999, it had a net loss and does not expect to earn net income in the foreseeable future. Moreover, BCE Emergis intends to significantly increase its operating expenses as it:

- increases its research and development activities;
- expands its distribution channels;
- increases its sales and marketing activities, including expanding its direct sales force;
- builds its internal information technology systems; and
- makes acquisitions.

If BCE Emergis does not significantly increase revenue at least commensurate with these expenditures, its net losses will increase significantly.

BCE Emergis - Operations in the United States

BCE Emergis is currently planning on expanding its operations in the United States. BCE Emergis has limited experience in marketing, selling and supporting its services in other countries, including the United States. It may not be able to successfully market, sell, deliver and support its services in the United States. BCE Emergis will need to devote significant management and financial resources to its expansion in the United States. In particular, BCE Emergis will have to attract and retain experienced management and other personnel. Competition for such personnel is intense, particularly in the United States, and BCE Emergis may be unable to attract and retain qualified staff. If BCE Emergis is unable to expand its

international operations successfully and in a timely manner, its business and operating results could be materially harmed.

The growth of BCE Emergis' healthcare vertical in the United States depends on BCE Emergis' ability to retain existing contracting providers, to attract additional contracting providers and to retain or improve the price concessions granted by contracting providers. BCE Emergis' contracts with contracting providers typically have a one-year term, are renewable automatically for successive one-year terms unless either party gives notice of intent not to renew, and may be terminated at any time, for any reason, upon satisfaction of the notification requirements. Also, these contracts do not prohibit the contracting providers from entering into discounted arrangements with others. The termination of a significant number of contracts with contracting providers having a high volume of claims with BCE Emergis' payor clients, the inability to replace those contracts with similar contracting providers or the renegotiation of contracts resulting in reduced price concessions could materially harm BCE Emergis' business and operating results.

BCE Emergis – Current government regulatory and industrial policy risks

Current regulations and laws governing the telecommunications industry generally do not apply to providers of data network access and e-commerce services and products, other than regulations applicable to businesses generally. Except for government regulations in certain foreign countries (which may affect the provision of certain of BCE Emergis' services or use of certain of its products) and regulations governing the ability of BCE Emergis to disclose the contents of communications by its customers, there are no government regulations pertaining to the pricing, service characteristics or capabilities, geographic distribution or quality control features of BCE Emergis' e-commerce services or products. There exists, however, the risk that governmental policies affecting the e-commerce industry could be implemented by legislation, executive order, administrative order or otherwise. If such policies are adopted, they could have a material adverse effect on the business, results of operations and financial condition of BCE Emergis.

Bell Canada International

Capital requirements

The majority of BCI's operations are in the start-up or early growth stages. Consequently, capital is required to fund ongoing operations and investment activities such as license fees, network construction and other start-up costs. Capital is also required for the acquisition of new properties.

BCI expects most of its operating companies to require additional debt and equity financing to complete or expand the construction of their networks. While BCI believes its operating companies will be able to secure debt financing from third parties and additional equity capital from BCI and its partners, there can be no assurance that financing will be available on terms satisfactory to or when required by BCI and its operating companies.

Dependence upon cash flow from operating companies

BCI's assets consist almost entirely of its shareholdings in its operating companies. Many of BCI's operating companies are in the start-up stage and do not currently generate distributable cash flows. There can be no assurance that BCI's operating companies will become profitable or produce positive cash flow. For those companies in which BCI holds a minority interest, BCI is legally unable to cause dividends or other distributions to be made to it.

Exchange rates

BCI reports its financial statements in Canadian dollars. BCI's principal operating companies function in different currency jurisdictions and all report in local currencies.

To the extent that the operating companies have commenced commercial operations, revenues that they generate will generally be paid to them in the local currency. However, many significant liabilities of these companies may be payable in currencies other than the local currency (such as U.S. dollar liabilities incurred for the financing of telecommunications equipment purchases). As a result, any devaluation in the local currency relative to the currencies in which such liabilities are payable could have a material adverse effect on BCI. In some developing countries, significant devaluation relative to the Canadian and United States dollars have occurred in the past and may occur again in the future.

BCE Media

General

The BCE Media group is comprised of four main business areas: satellite operations (Telesat), direct-to-home (DTH) satellite services (Bell ExpressVu), television broadcasting (CTV), programming services and business solutions. Factors beyond the BCE Media group's control such as those related specifically to the media and telecommunication industries and general domestic economic conditions may affect the operations of its businesses.

Telesat Canada

Risk of launch and in-orbit failure

Satellites are subject to the risk of launch failure, failure to achieve orbit and failure to operate once having reached orbit. Failure rates for such occurrences vary by launch vehicle and spacecraft manufacturer. Although Telesat has been successful in all 12 of its launches, there is no assurance that future launches will result in correct in-orbit placement with full satellite functionality. Telesat protects itself from launch and in-orbit failure through a variety of measures including engineering satellites with spare capacity and redundancies on board, as well as on-site monitoring at the manufacturer and launch service provider's sites. As a matter of policy, Telesat also purchases insurance for all its launches and where prudent, appropriate and commercially feasible, Telesat maintains in-orbit insurance coverage. A failure on board a future or existing satellite could reduce Telesat's available capacity and potentially have an adverse effect on its revenues.

Business risks and competition

Telesat's primary business activities (broadcast, telecommunications and carrier services) have been almost exclusively dedicated to the Canadian domestic market. Effective March 1, 2000, the monopoly that Telesat had over the provision of fixed satellite services ended. The Canadian domestic market is characterized by increasing competition and rapid technological development. Provision of services into the United States and Latin American markets is subject to certain risks such as changes in foreign government regulations and telecommunication standards, licensing requirements, tariffs, taxes and other matters. Latin American operations are also subject to risks associated with economic and social instability, regulatory and licensing restrictions, exchange controls and significant fluctuations in the value of foreign currencies. Telesat will face significant competition from other satellite companies already providing services in these markets, which may have the advantage of long-standing customer relationships, and may have greater financial resources than Telesat.

Governmental regulation

Prior to March 1, 2000, the CRTC regulated the rates, terms and conditions applicable to Telesat's RF Channel service rates under a form of rate of return regulation. In Telecom Decision 99-6, the CRTC approved an alternative form of regulation based on certain price ceilings, effective immediately for RF Channel services offered after March 1, 2000. While these price ceilings levels were established based on prevailing market conditions and are above current rates for certain of Telesat's existing satellite services, there can be no assurance that these ceilings will be appropriate as market conditions evolve.

In fiscal 1999, the U.S. State Department published amendments to the International Traffic in Arms Regulations which included satellites on the list of items requiring export permits. These provisions have and are likely to continue to have a negative impact on Telesat's international consulting business.

Bell ExpressVu

Capital requirements

Bell ExpressVu expects to generate operating losses for the next two to three years as it expands its subscriber base. To date, Bell ExpressVu has funded operating losses through capital injections from BCE. Bell ExpressVu believes that it will access sufficient sources of funding to achieve its business plan. However, such access is based on a business plan that is subject to various assumptions and estimates, including subscriber base, average revenue per subscriber and costs for acquiring new subscribers. If the business plan is not achieved, greater losses than planned would occur, requiring Bell ExpressVu to seek additional financing. There is no assurance that Bell ExpressVu will be successful in obtaining such financing on favourable terms and conditions.

DTH market risks

The success of Bell ExpressVu DTH business strategy is subject to factors that are beyond its control and impossible to predict due, in part, to the limited history of digital DTH services in Canada. Consequently, the size of the Canadian market for digital DTH services, the rates of penetration of that market, the churn rate, the extent and nature of the competitive environment, and the ability of Bell ExpressVu to meet revenue and cost expectations are uncertain. There is no assurance that a viable DTH market will develop in Canada or, even if such a market does develop, that Bell ExpressVu will be profitable in delivering its DTH services.

Competition

Bell ExpressVu faces competition from other DTH satellite service providers, cable operators and other distributors, grey market satellite service providers and other competitors such as off-air television broadcasters. Bell ExpressVu's DTH and cable competitors have pursued, and may continue to pursue, aggressive marketing campaigns and pricing policies targeting the existing customers of Bell ExpressVu. Although Bell ExpressVu has, to date, been successful in increasing market share in the face of such competition, there is no assurance that such success will continue.

Satellite defects

Bell ExpressVu's DTH services are provided through the **NIMIQ**[™] DBS satellite operated by Telesat. Satellites are subject to significant risks, including manufacturing defects, destruction or damage that may prevent proper commercial use, or in the loss of the satellite. Any such loss, damage or destruction of the satellite could have a material adverse impact on Bell ExpressVu's business and profits.

CTV

Television broadcasting is comprised of a conventional television sector of free over-the-air television services and a sector of specialty and pay television services delivered to subscribers by broadcast distribution undertakings, including cable and DTH operators. CTV operates in both the conventional and specialty sectors. Commercial advertising is the only source of revenue for the conventional television sector while the specialty sector, although primarily dependent on commercial advertising, also benefits from subscription revenues. Commercial advertising, while being affected by normal economic cycles, is a function of the viewing share in a given market and viewing share is in turn dependent on program content and the number of choices available. Market fragmentation has increased over the last decade as a result of the introduction of additional television services, the extended reach of existing signals and the increased use of VCRs while the deployment of digital capability will further extend the choices available over the next years as new Canadian and foreign services are made available. Furthermore, new web based services available over the Internet are expected to provide alternative niche services to consumers, continuing the fragmentation of the viewing market. Accordingly, reach and attractiveness of programming content are the two prominent variables in the ability to generate revenues. However, there can be no assurance that CTV will be able to maintain or increase its current ability to reach viewers with programming content that is satisfactory to the public nor that CTV will be able to maintain or increase its current advertising revenues.

IMPACT OF YEAR 2000 ISSUE (YEAR 2000 READINESS DISCLOSURE)

The Year 2000 issue relates to the way dates have traditionally been stored and used in computing systems. To conserve expensive memory space, years were stored as two digits, so that the year 2000 will appear in many computing systems as "00". Many systems and computers could have interpreted "00" as the year 1900 instead of the year 2000. This could have created difficulties in performing certain computing functions or potentially caused system failures. This in turn could have resulted in miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities. The effects of the Year 2000 issue could have been experienced before or on, and may still be experienced after, January 1, 2000.

The following discussion reviews the impact of the Year 2000 issue on Bell Canada.

Bell Canada

As of August 10, 2000, Bell Canada had detected no major incidents in its information systems, network elements or products and services, related to the Year 2000 issue. This includes its wireline services offered in Quebec and Ontario, its IP/Broadband Network and large business telecom services offered by Bell Nexxia, its wireless services offered through Bell Mobility, and **Sympatico**[™] service offered by Bell ActiMedia. As a result, Bell Canada has

NIMIQ is a trade-mark of Telesat Canada.

Sympatico is a trade-mark of Bell ActiMedia Inc.

not had to invoke any of its business continuity plans as of August 10, 2000. However, Bell Canada will continue to monitor its operating environments in the unlikely event that any unexpected Year 2000 incidents should occur after August 10, 2000.

Year 2000 Issue Outlook

The Year 2000 issue is a unique event which raised unprecedented challenges and risks. BCE Inc. presently believes that the Year 2000 issue now represents significantly reduced risks and this view is supported by the fact that no major incidents have been reported. BCE Inc. further believes that the remaining risks associated with the Year 2000 issue (e.g. December 31, 2000 to January 1, 2001 rollover) can be mitigated.

Condensed Consolidated Statement of Operations (unaudited)

<i>For the periods ended June 30</i>	(\$ millions, except per share amounts)			
	Second Quarter		Six Months	
	2000	1999	2000	1999
Operating revenues	4,335	3,451	8,435	6,875
Operating expenses	3,553	2,805	6,881	5,560
Restructuring and other charges	-	285	-	285
Net operating revenues	782	361	1,554	1,030
Gains on reduction of ownership in subsidiary companies	-	4,242	-	4,242
Other income (expense), including equity in net earnings (losses) of significantly influenced companies	(86)	345	(91)	372
Earnings from continuing operations before the under-noted items	696	4,948	1,463	5,644
Interest expense	339	268	626	550
Earnings from continuing operations before income taxes and non-controlling interest	357	4,680	837	5,094
Income taxes	(288)	(184)	(607)	(423)
Non-controlling interest	(26)	58	(70)	95
Earnings from continuing operations	43	4,554	160	4,766
Discontinued operations (Note 2)	-	119	4,055	(185)
Net earnings	43	4,673	4,215	4,581
Dividends on preferred shares	(19)	(24)	(42)	(47)
Net earnings applicable to common shares	24	4,649	4,173	4,534
Net earnings per common share				
Continuing operations	0.04	7.05	0.18	7.35
Net earnings	0.04	7.23	6.48	7.06
Dividends per common share	0.30	0.34	0.64	0.68
Average number of common shares outstanding (millions)	644.5	642.8	644.3	642.0

Condensed Consolidated Statement of Retained Earnings (unaudited)

<i>For the periods ended June 30</i>	(\$ millions)			
	Second Quarter		Six Months	
	2000	1999	2000	1999
Balance at beginning of period, as previously reported	11,822	3,867	8,691	4,207
Adjustment for changes in accounting policies (Note 1)	-	-	(797)	-
Balance at beginning of period, as restated	11,822	3,867	7,894	4,207
Net earnings	43	4,673	4,215	4,581
	11,865	8,540	12,109	8,788
Dividends - Preferred shares	(19)	(24)	(42)	(47)
- Common shares	(193)	(218)	(412)	(437)
- Distribution of Nortel Networks common shares (Note 2)	(10,114)	-	(10,114)	-
	(10,326)	(242)	(10,568)	(484)
Other	15	(1)	13	(7)
	(10,311)	(243)	(10,555)	(491)
Balance at end of period	1,554	8,297	1,554	8,297

Condensed Consolidated Balance Sheet (unaudited)

	June 30 2000	(\$ millions) December 31 1999
ASSETS		
Current assets		
Cash and cash equivalents	334	2,395
Accounts receivable	2,773	2,598
Other current assets	854	514
Total current assets	3,961	5,507
Investments in significantly influenced and other companies	5,637	2,909
Capital assets	19,388	16,935
Deferred charges	3,261	2,714
Goodwill and other assets	3,994	2,371
Investment in Nortel Networks - discontinued operations (Note 2)	-	6,524
Total assets	36,241	36,960
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	3,581	3,866
Debt due within one year	3,910	1,677
Total current liabilities	7,491	5,543
Long-term debt	10,999	8,780
Future income taxes and other long-term liabilities	3,908	2,285
Total liabilities	22,398	16,608
Non-controlling interest	3,240	2,460
SHAREHOLDERS' EQUITY		
Preferred shares	1,300	1,700
Common shareholders' equity		
Common shares ⁽¹⁾	6,820	6,789
Contributed surplus	997	997
Retained earnings	1,554	8,691
Currency translation adjustment	(68)	(285)
Total common shareholders' equity	9,303	16,192
Total shareholders' equity	10,603	17,892
Total liabilities and shareholders' equity	36,241	36,960

⁽¹⁾ At June 30, 2000, 644,678,663 (643,804,984 at December 31, 1999) common shares and 8,950,076 (5,767,012 at December 31, 1999) stock options were outstanding. The stock options were issued under BCE Inc.'s stock option programs and are exercisable on a one-for-one basis for common shares of BCE Inc.

Condensed Consolidated Statement of Cash Flows (unaudited)

<i>For the six months ended June 30</i>	2000	(\$ millions) 1999
Cash flows from operating activities		
Earnings from continuing operations	160	4,766
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization	1,766	1,503
Restructuring and other charges	-	285
Gains on reduction of ownership in subsidiary companies	-	(4,242)
Net gains on disposal of investments	(23)	(348)
Future income taxes	5	160
Dividends received in excess of equity in net losses (earnings) of significantly influenced companies	95	(4)
Other items	(397)	(239)
Change in non-cash working capital components	(688)	(1,137)
	918	744
Cash flows from investing activities		
Capital expenditures	(1,811)	(1,602)
Investments	(3,911)	(770)
Divestitures	62	5,938
Proceeds from disposition of capital assets	6	76
Other items	10	(45)
	(5,644)	3,597
Cash flows from financing activities		
Dividends paid on common and preferred shares	(454)	(484)
Dividends paid by subsidiaries to non-controlling interest	(180)	(28)
Net proceeds from issuance of:		
Notes payable and bank advances	2,240	495
Long-term debt	675	401
Issue of common shares, preferred shares and convertible debentures by subsidiaries to non-controlling interest	566	421
Redemption of preferred shares by subsidiaries	(295)	-
Issue of common shares	31	110
Other items	52	(22)
	2,635	893
Effect of exchange rate changes on cash and cash equivalents	-	(12)
Cash (used in) provided by continuing operations	(2,091)	5,222
Cash provided by discontinued operations	30	60
Net (decrease) increase in cash and cash equivalents	(2,061)	5,282
Cash and cash equivalents at beginning of period	2,395	370
Cash and cash equivalents at end of period	334	5,652

Segmented Information (unaudited)

	(\$ millions)			
	Second Quarter		Six Months	
<i>For the periods ended June 30</i>	2000	1999	2000	1999
Revenues				
Bell Canada ^{(1) (2)}	3,810	3,101	7,438	6,123
BCE Emergis and CGI	267	194	509	381
BCE Media	146	92	282	177
Bell Canada International	254	188	495	383
Corporate and Other	20	8	41	16
Intercompany eliminations	(162)	(132)	(330)	(205)
Total revenues	4,335	3,451	8,435	6,875
Net earnings				
Bell Canada ^{(1) (2)}	255	4,442	500	4,765
BCE Emergis and CGI	(53)	(5)	(74)	(35)
BCE Media ⁽³⁾	(46)	(17)	(72)	(36)
Bell Canada International	(143)	(72)	(274)	(126)
Corporate and Other	27	207	75	200
Intercompany eliminations	3	(1)	5	(2)
Earnings from continuing operations	43	4,554	160	4,766
Discontinued operations (Note 2)	-	119	4,055	(185)
Net earnings	43	4,673	4,215	4,581
Dividends on preferred shares	(19)	(24)	(42)	(47)
Net earnings applicable to common shares	24	4,649	4,173	4,534

(1) Represents the consolidation of Bell Canada Holdings Inc. (BCH) with Bell Canada and its consolidated subsidiaries. BCH owns 100% of Bell Canada. As of June 1, 1999, BCE owns 80% of BCH, the remaining 20% is owned by SBC Communications Inc. (SBC).

(2) Effective January 2000, BCE increased its ownership interest in Aliant Inc. (Aliant) from 41% to 53% (approximately 39% held by Bell Canada and approximately 14% held by BCE Inc. as of June 30, 2000) and therefore, in 2000, Aliant is consolidated and included in the Bell Canada segment.

(3) Effective April 2000, the BCE Media segment includes the results of CTV Inc. (CTV), accounted for using the equity method (Note 3).

Notes to the Condensed Consolidated Financial Statements (unaudited)

Note 1. Significant accounting policies

For a full description of the accounting policies, refer to BCE's 1999 Annual Report. All amounts are in Canadian dollars unless otherwise indicated. Certain comparative figures have been reclassified to conform with the current presentation.

On January 1, 2000, BCE adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook section 3465, *Income Taxes*, which replaces the deferral method with the liability method of tax allocation. BCE applied the new recommendations retroactively without restating prior years. The cumulative effect of adopting the new recommendations as at January 1, 2000, was to increase investments in significantly influenced and other companies by \$20 million, decrease investment in Nortel Networks Corporation (Nortel Networks) related to the discontinued operations by \$113 million, increase goodwill and other assets by \$36 million, increase future income taxes by \$4 million, increase non-controlling interest by \$14 million and decrease retained earnings by \$75 million.

On January 1, 2000, BCE adopted the recommendations of the CICA Handbook section 3461, *Employee Future Benefits*, which changes the accounting for pension and other types of employee future benefits. Previously, the costs of postemployment and postretirement benefits other than pensions were charged to earnings in the period in which they were paid. The new Handbook section requires companies to accrue the costs over the working lives of employees in a manner similar to pension costs. BCE applied the new recommendations retroactively, without restating prior years, by reflecting recognized and unrecognized amounts for all its benefit plans, consistent with United States generally accepted accounting principles. The cumulative effect of adopting the new recommendations as at January 1, 2000, was to decrease deferred charges by \$59 million, decrease investments in significantly influenced and other companies by \$46 million, decrease investment in Nortel Networks related to the discontinued operations by \$304 million, decrease future income taxes by \$343 million, increase other long-term liabilities by \$757 million, decrease non-controlling interest by \$101 million and decrease retained earnings by \$722 million.

Note 2. Discontinued operations – pro-rata distribution of Nortel Networks

In May 2000, BCE distributed an approximate 35% interest in Nortel Networks to BCE common shareholders. BCE common shareholders received, for each common share of BCE held, approximately 1.57 post-split common shares of Nortel Networks. Consequently, BCE's results prior to May 2000 reflect its 35% interest in Nortel Networks as a discontinued operation. This transaction was recorded as a distribution (dividend) to shareholders at the pro-rata carrying value of BCE's approximate 37% interest in Nortel Networks prior to the distribution. This resulted in a decrease to investment in Nortel Networks related to the discontinued operations of \$9,964 million, a decrease in retained earnings of \$10,114 million (including transaction costs of \$70 million), and an increase in currency translation adjustment of \$150 million. BCE's remaining interest (approximately 2%) in Nortel Networks is now being recorded as an investment at cost.

Discontinued operations, on the statement of operations, mainly reflects BCE's share of Nortel Networks' net earnings to common shareholders, as well as gains on the reduction of BCE's ownership in Nortel Networks, mainly as a result of Nortel Networks' acquisitions, through the issuance of shares, of Qtera Corporation, Clarify Inc. and Promatory Communications, Inc.

Note 3. Business acquisition

CTV

In April 2000, BCE completed the acquisition of all of the outstanding common shares of CTV, including the CTV common shares held by Electrohome Broadcasting Inc., for a cash consideration of approximately \$2.3 billion. As per the Voting Trust Agreement approved by the Canadian Radio-television and Telecommunications Commission (CRTC), the CTV shares acquired under the BCE offer have been transferred to a trustee until such time as the CRTC and other regulatory approvals required in this transaction are received by BCE. As part of the CRTC approval process, an additional 10% (approximately \$230 million) of the value of the transaction will be spent over the course of the license period on initiatives that will benefit the broadcasting industry (benefits package). The cost of the benefits package has been included as part of the purchase price for the acquisition of CTV, for a total purchase price of approximately \$2.5 billion. The acquisition was accounted for using the purchase method. Goodwill of approximately \$1.9 billion is being amortized over 20 years. During the time that these shares are held by the trustee, the investment in CTV will be accounted for using the equity method.

Note 4. Commitments*Teleglobe Inc.*

On June 18, 2000, BCE, Teleglobe Inc. (Teleglobe) and the principal shareholders of Teleglobe reached an agreement to revise certain terms of BCE's initial offer announced on February 15, 2000, to acquire all of the outstanding common shares of Teleglobe it does not already own. Under the revised agreement, BCE provided Teleglobe with immediate financing of US \$100 million and will provide additional financing if required prior to the closing of the transaction. BCE has also agreed to eliminate all conditions of the transaction except those provided by law and material regulatory approvals, and to accelerate the closing of the transaction. Teleglobe common shareholders will receive a fixed share exchange ratio of 0.91 of a BCE common share (less nominal cash consideration per share) for each Teleglobe common share they own. Teleglobe common shareholders can also choose to receive up to 20% in cash (including the nominal cash consideration) for the value of the BCE common share component, based on the price of BCE common shares prior to closing. Teleglobe stock option holders will receive, upon exercise of the option, 0.91 of a BCE common share for each Teleglobe stock option held. The transaction is anticipated to close in the fourth quarter of 2000, after regulatory, court and shareholder approvals have been received. Once completed, this acquisition will be accounted for using the purchase method.

Bell Canada International and Telefonos de Mexico Partnership

On June 7, 2000, Bell Canada International (BCI) and Telefonos de Mexico (Telmex) announced the signing of a definitive agreement to form a new facilities-based communications company which will be their principal vehicle for expansion in South America. The new company is expected to have an initial capitalization of US \$3.5 billion, which will include the South American assets of BCI and Telmex's investment in the Brazilian wireless company Algar Telecom Leste S.A. (ATL), as well as US \$1.8 billion in cash and cash commitments from the parties. Telmex and BCI will hold an equal economic interest in the newly created company. In addition, on June 14, 2000, SBC announced plans to contribute its economic interest in ATL. SBC expects to hold an initial economic interest of approximately 12% in the newly created company subject to final adjustments at the time of closing. The transaction is subject to certain regulatory and other approvals and is anticipated to be completed in the fourth quarter of 2000.

Note 5. Hedge of remaining interest in Nortel Networks

During the second quarter of 2000, BCE entered into forward contracts, for up to one year, with several financial institutions to hedge its exposure to fluctuations in the market price of Nortel Networks common shares. As a result of these contracts, approximately 46.4 million of BCE's 60 million Nortel Networks common shares have been hedged at an average price of approximately \$90 per share. Furthermore, BCE may, depending on market conditions, enter into additional derivative transactions with respect to a portion of its remaining Nortel Networks shares for a total of up to 53.5 million shares. BCE currently intends to use the hedged value of the Nortel Networks shares to raise, in one or more transactions, net proceeds of approximately \$5 billion in long-term debt financing. The forward contracts will, in effect, become part of the long-term financing arrangements. BCE anticipates the long-term debt financing to be in place prior to the end of the year. The terms and conditions of the long-term financing have not yet been determined.

BCE has granted from time to time stock options with accompanying rights to Special Compensation Payments (SCPs) to officers and key employees of BCE and its subsidiaries. As a result of the distribution (dividend) of Nortel Networks common shares (Note 2), the then outstanding options were divided into options over BCE and over Nortel Networks common shares, and the related SCPs were appropriately adjusted. As a result, SCP right holders now have, for each SCP right held prior to the distribution, SCP rights related to the increase in price of both the BCE and Nortel Networks common shares over the exercise prices of the related options. In addition, BCE has entered into forward contracts to hedge its exposure to outstanding SCP rights related to options over BCE common shares. The remaining 6.5 million Nortel Networks common shares have been designated as a hedge of BCE's exposure to outstanding rights to SCPs related to the options over the Nortel Networks common shares.

Note 6. Subsequent event – Sale of Hansol M.com

On June 14, 2000, BCI announced the signing of a definitive agreement to sell its 21% stake in Hansol M.com to Korea Telecom. BCI will receive gross proceeds in the form of cash, promissory notes and SK Telecom shares for an aggregate consideration of approximately \$1.5 billion which will result in a net gain of approximately \$1.0 billion. The transaction closed on July 26, 2000.