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Attachment 2

Financial Information 1999

Bell

In our ongoing efforts to contain costs,

Bell Canada no longer publishes a formal annual

report. This document contains Bell Canada's

Management's Discussion and Analysis of

financial condition and results of operations

as well as its Financial Statements for 1999.

Annual Reports for BCE Inc. (the parent company

of Bell Canada) are available from the Corporation.

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This management's discussion and analysis of financial condition and results of operations (MD&A) for the year 1999 focuses on the results of operations and financial situation of Bell Canada (the Corporation) and its subsidiaries and significantly influenced companies (collectively Bell Canada) and should be read in conjunction with the audited consolidated financial statements contained on pages 12 to 25. Certain sections of this MD&A contain forward-looking statements with respect to Bell Canada. 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 6 to 9 under "FORWARD-LOOKING STATEMENTS".

HIGHLIGHTS

On February 2, 2000, Bell Canada and Lycos, Inc. (Lycos), a Web media company and owner of the Lycos Network, announced the creation of a new Internet company, Sympatico-Lycos Inc., which will provide the primary BCE group portal for Canadian consumer Internet users. Under the terms of an agreement, Bell ActiMedia Inc. (Bell ActiMedia), a subsidiary of Bell Canada, will invest approximately $37 million to form Sympatico-Lycos Inc., which will be majority owned by Bell ActiMedia. In addition, Bell ActiMedia will also contribute its portfolio of consumer Internet properties to the new company. The transaction is subject to satisfying certain conditions, including the receipt of customary approvals. The transaction is expected to close in the near future and the Sympatico-Lycos portal is expected to be launched in May of 2000. Separately, Bell ActiMedia and Lycos signed a $60 million multi-year distribution agreement under which Bell ActiMedia products will be promoted to U.S. Lycos Network users accessing this network from Canada.

In January 2000, BCE Inc.* successfully completed the acquisition of 15.8 million outstanding common shares, for $27.50 per share, of Aliant Inc. (Aliant) (the company under which, on May 31, 1999, Bruncor Inc., Maritime Telegraph and Telephone Company Limited (MT&T) and NewTel Enterprises Limited (NewTel) were combined). This brings BCE Inc.'s and Bell Canada's total ownership in Aliant to 54% (approximately 41% held by Bell Canada and approximately 13% held by BCE Inc.), or approximately 53% on a fully diluted basis. Certain put and call options have been put in place, which, if exercised, will transfer the shares acquired by BCE Inc. to Bell Canada on agreed upon terms.

On October 22, 1999, Bell Canada increased its ownership interest in Bell Mobility Inc. (Bell Mobility) (formerly BCE Mobile Communications Inc.) from 65% to 100%. The aggregate purchase price was approximately $1,570 million. The acquisition was funded by the issuance of equity-settled notes to Bell Canada Holdings Inc. (BCH), the company which owns 100% of Bell Canada.

On June 1, 1999, BCE and Ameritech Corporation (SBC/Ameritech) (now a wholly-owned subsidiary of SBC Communications Inc.) finalized their strategic partnership announced on March 24, 1999. Under the terms of the partnership, SBC/Ameritech acquired an indirect 20% minority interest in Bell Canada, which has been reorganized to hold certain telecommunications assets previously held by BCE. On May 31, 1999, Bell Canada acquired from BCE, at net book value, BCE's interests of 65% in Bell Mobility, 22% in Teleglobe Inc. (Teleglobe), 42% in Aliant, BCE's wholly-owned interests in three other regional Canadian telecommunications companies, namely Northern Telephone Limited (Northern Telephone), Northwestel Inc. (Northwestel) and Télébec ltée (Télébec) and other investments. These investments were exchanged for common shares, $1.2 billion of debt, $0.9 billion of equity-settled notes and the assumption of $3.1 billion of debt due to BCE which was repaid on June 1, 1999 using the proceeds from the issuance of common shares to BCH. Furthermore, Bell Canada transferred to BCE, at net book value, its investments in BCE Emergis Inc. (BCE Emergis) and CGI Group Inc. (CGI). As a result of the reorganization, a $0.4 billion related party adjustment was charged to retained earnings. The reorganization represents a transfer (combination) of entities under common control and as such the consolidated financial statements have been restated to give retroactive effect to the reorganization. The $1.2 billion of debt and $0.9 billion of equity-settled notes that were issued by Bell Canada were assumed to be non-interest bearing prior to May 31, 1999.

RESULTS OF OPERATIONS

Bell Canada's results for 1999 reflected increased operating revenues and increased cash operating expenses and lower depreciation and amortization compared with 1998. In addition, 1999 results were impacted by restructuring and other charges in the aggregate amount of $267 million (pre-tax) compared with $608 million (pre-tax) in 1998.

As a result of the internal reorganization previously discussed, Bell Canada now operates in two segments:

i) Wireline

The wireline segment includes the Corporation and the following consolidated subsidiaries: BCE Nexxia Inc. (carrying on business under the name Bell Nexxia (Bell Nexxia)), Bell ActiMedia, Télébec, Northern Telephone and Northwestel. These entities provide a full range of domestic and international communications services to customers.

ii) Wireless

Bell Canada's wireless segment represents Bell Mobility which offers cellular, personal and paging communications services, the sale of private radio systems, airline passenger communications and wireless consulting services.

OPERATING REVENUES

Wireline

Local and access services revenues increased $50 million for 1999 compared with 1998 due mainly to growth in network access services (primarily business line growth), higher **SmartTouch™** services revenues which were positively impacted by the increased penetration of these services combined with price increases implemented in mid 1999, and increased revenues from competitors accessing the local network, partially offset by lower single line terminal sales, the deconsolidation of NewTel (See page 3 of this MD&A) and the impact of the reduction in local business rates.

Long distance and network services revenues decreased $284 million for 1999 compared with 1998. The decrease was due to lower long distance services revenues which were

*Unless the context indicates otherwise, BCE Inc. and its subsidiaries are collectively referred to herein as BCE.

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

1 Total Wireline Operating Revenues			
($ millions)	1999	1998	% change
Local and access services	**5,414**	5,364	1
Long distance and network services	**3,912**	4,196	(7)
Terminal sales, directory advertising and other	**2,138**	1,798	19
Total	**11,464**	11,358	1
Number of network access services (1) (excluding NewTel)			
(thousands)	1999	1998	% change
Residence	**7,622**	7,519	1
Business	**3,957**	3,749	6
Total	**11,579**	11,268	3

(1) Network access services represent, approximately, the number of lines in service as at December 31.

impacted by lower average prices of approximately 24% resulting from the increased penetration of discount calling plans for the consumer market such as **First Rate**™. The increased penetration of these discount calling plans has led to an increase in long distance service volumes as measured in conversation minutes (excluding NewTel) of 2,288 million (20%) to 13,550 million for 1999. The Corporation's share of the long distance market decreased by 1.8 percentage points to an estimated market share of 62.1% as at December 31, 1999, compared with an estimated market share of 63.9% as at December 31, 1998. Also contributing to the decrease in long distance services revenues was the deconsolidation of NewTel. The decrease in long distance services revenues was partially offset by an increase in network services revenues for 1999, compared with 1998, due mainly to growth in digital frame-relay services and in other digital data services, partially offset by the deconsolidation of NewTel.

Terminal sales, directory advertising and other revenues for 1999 increased $340 million compared with 1998 due mainly to growth at Bell Nexxia (as a result of the provision of Internet and Internet Protocol/Broadband services), and increased revenues related to terminal equipment sales and Internet access, partially offset by the deconsolidation of NewTel.

Excluding NewTel (deconsolidated as of May 31, 1999 as a result of its combination into Aliant and Bell Canada's resulting 42% ownership in Aliant), local and access services revenues increased $128 million or 2%, long distance and network services revenues decreased $211 million or 5% and terminal sales, directory advertising and other revenues increased $372 million or 23% for 1999 compared with 1998.

During 2000, Bell Canada will seek revenue growth through network access services growth, increased penetration of **SmartTouch** services, new product introduction, targeted price increases, increased marketing efforts, growth from the data/Internet Protocol market (by increasing its penetration rate of high-speed users), various initiatives in data and product development and innovative bundled services. The potential increase in local service competition, lower average local rates due to the continuing impact of the price cap regime and competitive pressures in the long distance market will adversely affect revenues.

Wireless

Wireless operating revenues increased $72 million for 1999 compared with 1998 due mainly to increased wireless voice revenues. The increased revenues resulted mainly from increases in the 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 $60 per month in 1998 to $51 per month in 1999 reflecting the impact of increased competition in the wireless market and the growth in the number of prepaid subscribers. In response, Bell Mobility recently introduced new **RealTime**™ rate packages offering both competitive prices and industry leading wireless access to the Internet on the handset.

At December 31, 1999, there were 1,797,000 cellular and PCS subscribers of which 1,408,000 were cellular subscribers and 389,000 were PCS subscribers, reflecting net additions of 322,000 or 22% from December 31, 1998. Included in the total subscriber base were 509,000 prepaid subscribers.

2 Total Wireless Operating Revenues			
($ millions)	1999	1998	% change
Wireless services	**1,119**	1,047	7

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

RealTime is a trade-mark of Bell Mobility Cellular Inc.

OPERATING EXPENSES

Wireline

Wireline cash operating expenses increased $194 million for 1999 compared with 1998 due mainly to cost increases associated with volume increases mainly related to the provision of Internet and Internet Protocol/Broadband services and the increased stock-based compensation expense related to the $73 increase in BCE Inc.'s share price during 1999, partially offset by lower long distance settlement payments and the deconsolidation of NewTel.

At December 31, 1999, the total number of employees was 40,848, reflecting a decrease of 1,966 from December 31, 1998, mainly as a result of the deconsolidation of NewTel, partially offset by the repatriation of employees from Stentor. Total salaries and wages (including capitalized amounts) were $2,214 million, down $60 million from 1998, reflective of the decrease in employee base impacted primarily by the deconsolidation of NewTel.

EBITDA (earnings before interest expense, income taxes, depreciation and amortization, pension credits and restructuring and other charges) was $5,033 million for 1999 representing a decrease of $88 million compared with 1998 as the higher operating revenues were offset by the higher cash operating expenses.

In May 1999, the Corporation and its Operator Services employees and Craft and Services employees, represented by the Communications, Energy and Paperworkers' Union (CEP), signed new five-year agreements (effective May 15, 1999) replacing the collective agreements which expired on

3	Total Operating Expenses		
($ millions)	1999	1998	% change
Cash operating expenses:			
Wireline	**6,431**	6,237	3
Wireless	**753**	744	1
Total cash operating expenses	**7,184**	6,981	3
Pension credit	**(204)**	(316)	(35)
Depreciation and amortization	**2,440**	2,634	(7)
Restructuring and other charges	**267**	608	(56)
Total	**9,687**	9,907	(2)

November 24, 1998 and November 30, 1998, respectively, putting an end to the five-week strike, which began on April 9, 1999. In December 1999, Bell Canada and its Communications Sales employees, represented by the Canadian Telephone Employees' Association (CTEA), signed a new four-year agreement (effective January 1, 2000), replacing the three-year collective agreement which expired on December 31, 1999.

During 2000, Bell Canada anticipates moderate increases in cash expenses mainly related to revenue growth initiatives principally within wireline, which are expected to be partially offset by lower settlement payments to other telecommunications companies. Modest growth in expenses supporting Internet and data initiatives is anticipated as part of an overall strategy to increase focus and presence in these areas.

Wireless

Wireless cash operating expenses for 1999 increased $9 million compared with 1998 resulting primarily from higher network delivery costs, partially offset by selling expense reductions driven by decreased hardware costs and cost containment efforts.

EBITDA was $366 million or $63 million higher for 1999 compared with 1998 due mainly to increases in wireless voice services and other revenues and decreased selling expenses, partially offset by increased costs of revenue.

Depreciation and amortization

The decrease in depreciation and amortization expense of $194 million in 1999 compared with 1998 was primarily due to lower net average plant in service. In addition, certain assets, such as **DMS™** switches installed in the late 1980s and early 1990s, have been almost entirely depreciated. Depreciation and amortization expense is expected to decrease moderately in 2000 compared with 1999.

Restructuring and other charges

In 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. These restructuring programs are expected to be substantially completed by mid 2000. Other charges related mainly to the write-down of the Iridium investment.

In 1998, Bell Canada recorded a pre-tax charge of $608 million ($392 million after tax) representing restructuring and other charges of $102 million and $506 million, respectively. The restructuring charges related to plans for rationalization of real estate and the integration of business units. Included in the charges were costs relating to lease terminations and associated costs and employee severance. Other charges mainly included a provision for the costs of implementing local service competition and providing local number portability to the extent such costs were estimated not to be recoverable. Also included in other charges were costs relating to the write-down of certain assets and other provisions.

As at December 31, 1999, the remaining balance of the restructuring provision is $130 million ($61 million in 1998). This provision is comprised primarily of unpaid severance payments to the members of the Operator Services group for $60 million, other unpaid incremental costs of $12 million associated with the outsourcing of the Operator Services group, and $30 million for costs relating to the rationalization of real estate.

INTEREST EXPENSE

Interest expense of $796 million was $95 million lower compared with 1998 as a result of a lower average debt level (mainly due to the $3.1 billion of debt repaid on June 1, 1999, partially offset by the new debt issued as part of the Bell Canada reorganization – See HIGHLIGHTS section on page 2).

OTHER INCOME

Other income of $78 million was $190 million higher compared with 1998 due mainly to net gains on the disposal of investments, in 1999, totalling $127 million. Included in the $127 million is a gain of $89 million relating to the sale of Bell Canada's interest in Phone.Com, Inc. (Phone.Com).

WIND UP OF STENTOR CANADIAN NETWORK MANAGEMENT (SCNM)

On July 6, 1999, Bell Canada and Telus Communications Inc. announced that they had reached an agreement on the creation of a new model for managing national network operations currently performed by SCNM. As a result of this new arrangement, as of January 1, 2000, Bell Canada is providing national operational support services to BCT.Telus Communications Inc. (BCT.Telus), and to Bell Canada's partners, Aliant, Saskatchewan Telecommunications (SaskTel) and MTS. SCNM, the central organization created in 1992 to perform these functions, has been wound up. Many of SCNM's employees and functions have been transferred to Bell Canada and the other SCNM members. The companies will continue their co-operative efforts to ensure continuity and seamless service of their shared national network for the benefit of their customers.

WAGE PRACTICES INVESTIGATION

On September 30, 1999, Bell Canada, the CEP and the CTEA announced that they had reached a tentative $59 million settlement regarding the 1994 pay equity complaints which were before the Canadian Human Rights Tribunal (Tribunal). The settlement covering approximately 20,000 current and former employees of Bell Canada was subject to a ratification process by the CEP's and CTEA's members and approval by the Canadian Human Rights Commission. The CEP and CTEA had agreed to recommend acceptance of the settlement to their members. On October 29, 1999, the CEP and CTEA announced that the tentative pay equity settlement was rejected by their members. Accordingly, 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. Bell Canada has filed for judicial review of this decision in Federal Court. Unless the matter is otherwise resolved, hearings and any appeal could last several years.

REGULATORY DECISIONS

On December 23, 1999, in Order 99-1237, the Canadian Radio-television and Telecommunications Commission (CRTC) approved, on an interim basis, the Corporation's November 17, 1999 application to revise the rates it charges customers for **SmartTouch** services. The changes, which became effective January 17, 2000, increased rates for features such as **SmartPac**™, Call Display Number and Visual Call Waiting as well as removed the reduction customers received when ordering two or more calling features.

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 40MHz, to 55MHz. 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 (3G) PCS services. Industry Canada's release also indicates that the remaining 40 MHz of PCS spectrum in the C and E blocks will be allocated through an auction which will be completed by the Fall of 2000.

On October 13, 1999, in Order 99-991, the CRTC determined that it would no longer be necessary to regulate mobile wireless services provided in-house by incumbent wireline carriers. This decision will permit Bell Canada to market cellular services directly without tariff approval.

On October 8, 1999, in Order 99-972, the CRTC concluded that the current prohibition on the resale of Interexchange Voice services by affiliated companies was no longer required. With respect to local services, the CRTC concluded that resale of local exchange services or facilities by an affiliated reseller is prohibited. However, this restriction does not apply to: 1) affiliates who are Canadian carriers; or 2) any affiliate, whether a Canadian carrier or reseller, operating in the serving territory of an unaffiliated incumbent local exchange carrier.

On June 8, 1999, in Order 99-513, the CRTC approved the Corporation's May 10, 1999 application to revise rates for its residence Call Answer and Call Answer Plus Messaging services. These changes, which have increased rates for the fully integrated residence Call Answer service, decreased rates for the residence Call Answer Plus service and increased charges for integrated residential mail boxes, have increased bottom line contribution while better positioning these services in the competitive market place.

On June 1, 1999, in Order 99-489, the CRTC approved price reductions proposed by the Corporation as part of its second annual price cap filing on March 31, 1999. The rate changes, which became effective June 1, 1999, lowered the cost to customers of digital communications for services such as **MEGALINK**™, Digital Network Access, Direct Inward Dialing, Digital Exchange Access and Centrex Multiple Appearance Directory. Prices for the Corporation's other access services remain unchanged.

On March 12, 1999, in Order 99-239, the CRTC established, on an interim basis, the manner in which the Corporation can recover, over a three-year period, costs associated with local competition start-up and local number portability. The portion to be recovered from services subject to price cap regulation is to be reflected as an exogenous factor in the price cap formula. Pending a final decision, this amount is to be used only to mitigate price decreases that would otherwise be required.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities for 1999 were $2,778 million, $757 million lower compared with 1998 due mainly to increased working capital requirements.

Cash flows used in investing activities were $4,687 million reflecting an increase of $1,896 million compared with last year. The change was primarily as a result of increased investments in 1999 and the sale of certain real estate properties for $753 million in 1998, partially offset by the sale of certain investments in 1999 (mainly Phone.Com for $116 million) and reduced capital expenditures. Bell Canada's investments for 1999 totalled $2,304 million and consisted mainly of Bell Canada's increased ownership interests in Bell Mobility (from 65% to 100%) for $1,570 million, in Teleglobe (from 20% to 23%) for $312 million and a $339 million (20%) investment in MTS. This compares to investments of $967 million for the same period last year consisting mainly of a $736 million investment in Teleglobe. The decreased capital expenditures related mainly to reduced digital network expenditures at Bell Mobility and the deconsolidation of NewTel, partially offset by increases in information systems and information technology spending on system implementation, the deployment of Internet high speed service and further Bell Nexxia expansion. Capital expenditure levels for 2000 are expected to be similar, when compared with 1999, due to increased investment to meet the growing demand for data services partially offset by reduced expenditures related to information systems and information technology spending.

Cash flows from financing activities for 1999 were $1,997 million compared with cash flows used in financing activities of $674 million for 1998. The change was due mainly to the issue of an equity-settled note to BCH in the amount of $1,570 million (at an interest rate of 6.0% and due on demand) to finance the additional investment in Bell Mobility and to the issue of long-term debt of $1,473 million in 1999 compared with $164 million in 1998. The proceeds from the issue of debt were used to refinance maturing debt of approximately $650 million, to repay short-term debt issued to BCE Inc. and to finance the capital expenditures and investments referred to above. In addition, in 1999,

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Bell Canada issued $3.1 billion of common shares to BCH. The proceeds from the issuance of these shares were used to repay $3.1 billion of debt due to BCE (See page 2 of this MD&A).

As discussed on page 2 of this MD&A, as part of the reorganization of Bell Canada, Bell Canada issued $2.1 billion of debt and equity-settled notes to BCH. These notes consist of a senior unsecured note of $1,162 million, at an interest rate of 5.85%, maturing May 31, 2001 and a subordinated unsecured obligation of $923 million in the form of an equity-settled note, at an interest rate of 8.22%, maturing May 31, 2034.

Bell Canada's cash requirements during 1999, including the financing of capital expenditures and investments, were mainly met by cash flows from operations and by external financing. In January of 2000, Bell Canada issued $400 million Cumulative Redeemable Class A Preferred Shares Series 15 at a price of $25.00 per share and an initial yield of 5.50%. Part of the proceeds from the Series 15 Preferred Shares issue 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 the year 2000, approximately $800 million of Bell Canada's long-term debt will mature, and $100 million Series 10 Preferred Shares will become redeemable, at the option of the holders thereof, 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. Bell Canada's cash requirements during 2000 and beyond, 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.

Outstanding third party commercial paper totalled $11 million, on December 31, 1999. The commercial paper program is supported by lines of credit, extended by several banks, totalling $1.6 billion.

In November 1999, the Corporation filed with all Canadian provincial securities regulatory authorities a short form shelf prospectus for the issue, during a two-year period, of up to $3 billion of debt securities (Canadian Shelf). In December 1999, the Corporation filed with the United States Securities and Exchange Commission a registration statement for the issue, during a two-year period, of up to US $500 million of debt securities (U.S. Shelf). The aggregate amount of debt securities issued under the Canadian Shelf and the U.S. Shelf may not, together, exceed $3 billion. On February 17, 2000, Bell Canada announced the offering in Canada of $200 million of medium term debentures pursuant to its medium term debenture program under the Canadian Shelf. The 6.65% Debentures, Series M-5, will be issued on March 1, 2000 and will mature March 1, 2006.

In May 1999, the major agencies **(Canadian Bond Rating Service™, Dominion Bond Rating Service™,** Moody's Investors Service (Moody's) and **Standard & Poor's™** Ratings Group (S&P)) completed their annual reviews of the Corporation's credit ratings, together with special analysis of the transaction with SBC/Ameritech. All of the Corporation's Canadian credit ratings were confirmed and Moody's raised its outlook for the Corporation from negative to stable. In addition, on July 30, 1999, following the Corporation's announcement of its offer to purchase the minority interest of Bell Mobility, S&P affirmed the Corporation's ratings, all with positive implications.

RECENT PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants (CICA) issued the new Handbook Section 3465, *Income Taxes,* which changes the accounting for income taxes. Effective for fiscal years beginning on or after January 1, 2000, the existing deferral method, which focuses on the income statement, will be replaced with the liability method of tax allocation, which focuses on the balance sheet. When the new Handbook section is adopted, deferred income taxes will represent temporary differences between the tax basis of assets and liabilities and their carrying values for accounting purposes. The liability method requires all deferred income tax assets and liabilities to be remeasured at the tax rate that is expected to apply when the temporary differences reverse. The impact of adopting the new Handbook section is not expected to have a material effect on the financial statements of Bell Canada.

The CICA issued the new Handbook Section 3461, *Employee Future Benefits,* which changes the accounting for pension and other types of employee future benefits. Effective for fiscal years beginning on or after January 1, 2000, the new Handbook section requires companies to accrue the costs of postretirement benefits other than pensions over the working lives of employees in a manner similar to pension costs. Under current practice, such costs are charged to income as paid. The new Handbook section also requires a change in the discount rate used to value liabilities and service costs from an estimated long-term rate to a market-based interest rate. The impact of adopting the new Handbook section is expected to result in a charge to retained earnings in excess of $500 million, net of tax. In addition, Bell Canada's pension credit (pre-tax) for 2000 is expected to be between $100 million and $125 million compared with $204 million in 1999.

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 Bell Canada and its subsidiaries and significantly influenced companies (the "Bell Canada 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 Bell Canada Group companies. These forward-looking statements, by their nature, necessarily involve known and unknown risks, uncertainties and other factors that could cause actual results or events to differ materially from those contemplated by the forward-looking statements.

The Bell Canada 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 Bell Canada Group companies' control which affect their

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operations. Such trends and factors include adverse changes in the conditions in the specific markets for the Bell Canada Group companies' products and services, the conditions in the broader market for telecommunications and the conditions in the domestic or global economy generally. The Bell Canada 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 Bell Canada Group companies' business, operating results and financial condition.

Certain other factors which could cause actual results or events to differ materially from current expectations are discussed below under the headings "RISK FACTORS" and "IMPACT OF THE YEAR 2000 ISSUE (YEAR 2000 READINESS DISCLOSURE)". Bell Canada disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

RISK FACTORS

In addition to the other risk factors outlined in this MD&A, the following factors should be considered. Collectively, these factors could cause the results contemplated by the forward-looking statements contained in this document to materially differ from current expectations.

General

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 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.

Bell Canada Group Wireline Companies

Increasing competition

With the advent of competition in the local service market in 1998, all parts of Bell Canada's business and of the business of certain of its subsidiaries and significantly influenced companies are facing substantial and intensifying competition. Factors such as product pricing and service performance are under continued pressure while the necessity to reduce costs is ongoing. The Bell Canada Group wireline 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 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 BCT.Telus, AT&T Canada inc. and Sprint Canada inc., but also cable companies (e.g. Rogers/Videotron), 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 wireline companies selectively expand internationally, the number and strength of competitors will also increase.

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 wireline 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 wireline companies' level of earnings by shortening the useful life of some of their assets. Furthermore, technological advances may well emerge that could reduce or replace the costs of plant and equipment and eliminate or reduce barriers that deter other companies from competing in particular market segments.

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 regulation and forbearance for some segments of the private line market. These decisions, which are described under the heading "Regulatory framework" of Bell Canada's Annual Information Form for the year ended December 31, 1999, represent significant challenges and opportunities for Bell Canada and certain of its subsidiaries and significantly influenced companies and are expected, together with continued intense competition across all lines of business coupled with the rapid pace of technological change (as previously discussed), to have a significant impact on such companies' results in the future.

Wireless – Bell Mobility

Competition

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

Industry Canada will be conducting an auction for 40 MHz of spectrum in the 1.9 GHz band which potentially could be licensed to Bell Mobility, competitors or companies not currently holding cellular or PCS licenses. The number of competitors may also increase if wireless system operators choose to sell wireless services in bulk to other companies for resale to the public.

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 who can compete anywhere in the country to bring the fast-evolving benefits of wireless communications to national customers. The new agreement, with implementation expected in the first quarter of the Year 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 agreement 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 geographically expand its operations nor 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.

Rapid technological change

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.

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 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 and its margins in the short to medium term.

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.

In October 1998, Industry Canada issued Canada Gazette Notice DGTP-015-98 soliciting public comment on whether to continue, modify or rescind the application of a limit on the aggregate amount of spectrum that may be held by PCS providers. At the time of the initial selection of PCS licensees in December 1995, Industry Canada adopted a Spectrum Cap Policy which was set at 40 MHz and consists of frequency assignments for PCS at 2 GHz, cellular radiotelephony and similar public high mobility radiotelephony services. Bell Mobility currently has a license for 25 MHz of cellular spectrum and 10 MHz of PCS spectrum.

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 40MHz, to 55MHz. 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 3G 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 will be completed by the Fall of 2000.

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's 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.

IMPACT OF THE 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 cause 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. In addition, similar problems could have arisen in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue could have been experienced before or on, and may still be experienced after, January 1, 2000 (e.g., the leap year rollover).

Bell Canada's subsidiary and significantly influenced companies established Year 2000 programs with the objective of seeking to ensure that all aspects of their operations were addressed to meet the Year 2000 issue. As of May 31, 1999, the corporate structure of Bell Canada changed with the transfer to Bell Canada of several companies formerly held by BCE. While each of these companies has its respective Year 2000 program, Bell Canada instituted an overview program with its subsidiaries to monitor the Year 2000 compliance status of these companies. As of December 31, 1999, Bell Canada's subsidiaries had completed the effort required to convert or upgrade, test and deploy (i.e., put back into service) their network elements, information systems/information technology and products and services to be Year 2000 ready.

As of February 23, 2000, Bell Canada had detected no major incidents in its information systems, network elements or products and services, related to the Year 2000 rollover. 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. However, Bell Canada will continue to closely monitor its operating environments in the unlikely event that any unexpected Year 2000 incidents should occur after February 23, 2000.

BELL CANADA

The following discussion reviews the impact of the Year 2000 issue on Bell Canada and the companies (excluding BCE Emergis) that comprised its subsidiaries prior to the May 31, 1999 reorganization.

While no major Year 2000 related incidents have been reported to date, the practical consequences of the Year 2000 issue were a significant risk and challenge to telecommunications companies such as Bell Canada because the nature of its business is highly dependent on complex systems and technology which have date sensitive aspects and a significant portion of its software had to be modified or replaced. The Year 2000 issue could have impacted and may still impact across most of Bell Canada's operations including the network (both its own and that shared with its business partners), the products and services provided to customers and its own internal systems and support activities. Many products and services, as well as their supporting elements (e.g., voice mail), are also dependent on date-related functionality.

From December 28, 1999 to January 4, 2000, Bell Canada activated its Emergency Operations Centres to monitor the rollover into the Year 2000. As expected, there were no major incidents within Bell Canada associated with the rollover into the Year 2000. As a result, Bell Canada has not had to invoke any of its business continuity plans as of February 23, 2000.

The Readiness and Activation phase will remain active until Bell Canada is satisfied that its Year 2000 business continuity plans are no longer required. This is expected to occur in March 2000. As part of the Readiness and Activation phase, Bell Canada intends to again activate its Emergency Operations Centres during certain critical periods (such as the leap year rollover on February 29, 2000) so that it can respond in a timely fashion to any unexpected event which may occur.

Since January 1997, Bell Canada has had in place a comprehensive vendor management program, which seeks to ensure that the products and services it receives from its suppliers are or will be Year 2000 compliant. As of December 31, 1999, Bell Canada had completed its due diligence process with its suppliers. Bell Canada intends to continue its monitoring of its suppliers to seek to ensure that products and services are Year 2000 compliant and will remain Year 2000 compliant.

BELL MOBILITY

Bell Mobility successfully made the transition into the new millennium with all systems and networks operating normally. All business critical assets, which are those assets that support core activities within call processing, customer service, revenue assurance and customer acquisitions, as well as all non-business critical assets, were Year 2000 ready by October 1999.

Bell Mobility's Year 2000 project has been substantially completed with the exception of on-going vendor management and internal change control processes. Bell Mobility 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. Bell Mobility further believes that the remaining risks associated with the Year 2000 issue (e.g., the leap year rollover) can be mitigated. Bell Mobility will continue to monitor its suppliers to ensure that their products and services continue to operate normally throughout 2000 and into 2001.

Sympatico is a trade-mark of MediaLinx Interactive, Limited Partnership.

TOTAL COSTS ASSOCIATED WITH THE YEAR 2000 ISSUE

The Year 2000 costs of the Corporation, and the portion of the Year 2000 costs attributable to the Corporation's ownership interest in all its subsidiary and significantly influenced companies, are estimated at approximately $420 million, $230 million of which is expected to be capitalized and $190 million is expected to be expensed in accordance with existing practices. As of December 31, 1999, these costs were approximately $415 million, of which approximately $185 million was expensed and the balance capitalized.

YEAR 2000 ISSUE OUTLOOK

While Bell Canada believes it has an appropriate plan in place, the Year 2000 issue is a unique event which has raised and continues to raise unprecedented challenges and risks. Bell Canada 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. Bell Canada further believes that the remaining risks associated with the Year 2000 issue (e.g. , the leap year rollover) can be mitigated. However, if any of Bell Canada's mission critical suppliers fail to deliver Year 2000 ready products and services, if products or systems of other companies which Bell Canada or its customers utilize or rely on are not converted in a timely and effective manner, or if there is a failure to convert by another company or a conversion that is incompatible with Bell Canada's systems, and if Bell Canada's business continuity plans are ineffective, the Year 2000 issue could have a material adverse effect on the financial condition and results of Bell Canada.

management's report

The accompanying consolidated financial statements of Bell Canada (the Corporation) and its subsidiaries (collectively Bell Canada), and all information in this document are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements of management, and in their opinion present fairly Bell Canada's financial position, results of operations and cash flows. Financial information presented elsewhere in this document is consistent with that in the financial statements.

Management of Bell Canada, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements and that Bell Canada's assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this document principally through its Audit Committee. The Audit Committee reviews the Corporation's annual consolidated financial statements and other information in this document, and recommends their approval by the board of directors. The internal and the shareholders' auditors have free and independent access to the Audit Committee.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants.

Jean C. Monty
Chairman and
Chief Executive Officer

Ronald Reising
Chief Financial Officer

Gary M. Davis
Vice-President and Controller

February 23, 2000

auditors' report

To the Shareholders of Bell Canada

We have audited the consolidated balance sheets of Bell Canada and its subsidiaries as at December 31, 1999 and 1998 and the consolidated statements of operations, retained earnings and cash flows for the years then ended as they appear on pages 12 to 25. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

Montréal (Québec)
February 23, 2000

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31 ($ millions)	Notes	1999	1998*
Operating revenues			
Local and access services		**5,414**	5,364
Long distance and network services		**3,912**	4,196
Wireless services		**1,119**	1,047
Terminal sales, directory advertising and other		**2,138**	1,798
Total operating revenues		**12,583**	12,405
Operating expenses			
Operating expenses		**7,184**	6,981
Pension credit		**(204)**	(316)
Depreciation and amortization		**2,440**	2,634
Restructuring and other charges	(4)	**267**	608
Total operating expenses		**9,687**	9,907
Net operating revenues		**2,896**	2,498
Gain on reduction of ownership in a significantly influenced company	(5)	**–**	315
Interest expense – long-term debt		**(689)**	(861)
– other		**(107)**	(30)
Equity in net earnings of significantly influenced companies		**53**	21
Other income (expense)		**78**	(112)
Earnings before income taxes and non-controlling interest		**2,231**	1,831
Income taxes	(6)	**(926)**	(745)
Non-controlling interest		**4**	3
Net earnings		**1,309**	1,089
Dividends on perpetual preferred shares		**(32)**	(33)
Interest on equity-settled notes		**(35)**	–
Net earnings applicable to common shares		**1,242**	1,056

* Restated (See Note 1)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31 ($ millions)	Notes	1999	1998*
Balance at beginning of year		**334**	1
Net earnings		**1,309**	1,089
		1,643	1,090
Dividends – Perpetual preferred shares		**(32)**	(33)
– Common shares		**(868)**	(765)
		(900)	(798)
Interest on equity-settled notes		**(35)**	–
Other		**(25)**	19
Reclassification of contributed surplus	(14)	**–**	23
		(960)	(756)
Balance at end of year		**683**	334

* Restated (See Note 1)

CONSOLIDATED BALANCE SHEET

At December 31 ($ millions)	Notes	1999	1998*
ASSETS			
Current assets			
Cash and cash equivalents		**191**	103
Accounts receivable		**2,028**	1,536
Other current assets		**361**	359
Total current assets		**2,580**	1,998
Investments in significantly influenced and other companies	(7)	**2,497**	1,832
Capital assets	(8)	**13,511**	13,901
Deferred charges	(9)	**1,895**	1,766
Goodwill and other assets		**1,346**	151
Total assets		**21,829**	19,648
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**2,790**	2,694
Income and other taxes payable		**167**	377
Debt due within one year	(9)	**1,100**	1,031
Total current liabilities		**4,057**	4,102
Long-term debt	(10)	**7,749**	10,198
Deferred income taxes		**414**	338
Other long-term liabilities		**748**	715
Retractable preferred shares	(12)	**116**	128
Non-controlling interest		**69**	484
Shareholders' equity			
Perpetual preferred shares	(12)	**630**	630
Equity-settled notes	(13)	**2,493**	923
Common shares	(14)	**4,498**	1,422
Contributed surplus		**367**	367
Retained earnings		**683**	334
Currency translation adjustment		**5**	7
Total shareholders' equity		**8,676**	3,683
Commitments and contingent liabilities	(17)		
Total liabilities and shareholders' equity		**21,829**	19,648

*Restated (See Note 1)

On behalf of the Board of Directors:

J. Edward Newall
Director

Guy Saint-Pierre
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 ($ millions)	1999	1998*
Cash flows from operating activities		
Net earnings	1,309	1,089
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization	2,440	2,634
Restructuring and other charges	218	471
Gain on reduction of ownership in a significantly influenced company	–	(315)
Net gains on disposal of investments	(127)	–
Deferred income taxes	85	(150)
Pension and other items	(244)	(380)
Change in non-cash working capital components	(903)	186
	2,778	3,535
Cash flows from investing activities		
Capital expenditures	(2,499)	(2,629)
Proceeds from disposition of capital assets	–	759
Investments	(2,304)	(967)
Proceeds from sale of investments	201	–
Other items	(85)	46
	(4,687)	(2,791)
Cash flows from financing activities		
Dividends paid on common and preferred shares	(900)	(798)
Interest on equity-settled notes	(35)	–
Issue of notes payable and bank advances	458	763
Issue of long-term debt	1,473	164
Repayment of long-term debt	(3,759)	(931)
Issue of equity-settled notes	1,570	–
Issue of common shares	3,076	–
Issue of common shares by subsidiaries to non-controlling interest	7	101
Other items	107	27
	1,997	(674)
Net increase in cash and cash equivalents	88	70
Cash and cash equivalents at beginning of year	103	33
Cash and cash equivalents at end of year	191	103

*Restated (See Note 1)

1. SIGNIFICANT ACCOUNTING POLICIES

Reorganization of Bell Canada

On June 1, 1999, BCE Inc. (the ultimate parent company of Bell Canada) (BCE Inc. and its subsidiaries are collectively referred to herein as BCE) and Ameritech Corporation (SBC/Ameritech) (now a wholly-owned subsidiary of SBC Communications Inc.) finalized their strategic partnership announced on March 24, 1999. Under the terms of the partnership, SBC/Ameritech acquired an indirect 20% minority interest in Bell Canada, which has been reorganized to hold certain telecommunications assets previously held by BCE. On May 31, 1999, Bell Canada acquired from BCE, at net book value, BCE's interests of 65% in Bell Mobility Inc. (Bell Mobility) (formerly BCE Mobile Communications Inc.), 22% in Teleglobe Inc. (Teleglobe), 42% in Aliant Inc. (Aliant) (the company under which, on May 31, 1999, Bruncor Inc. (Bruncor), Maritime Telegraph and Telephone Company, Limited, (MT&T) and NewTel Enterprises Limited (NewTel) were combined), BCE's wholly-owned interests in three other regional Canadian telecommunications companies, namely Northern Telephone Limited (Northern Telephone), Northwestel Inc. (Northwestel) and Télébec ltée (Télébec) and other investments. These investments were exchanged for common shares, $1.2 billion of debt, $0.9 billion of equity-settled notes and the assumption of $3.1 billion of debt due to BCE, which was repaid on June 1, 1999, using the proceeds from the issuance of common shares to Bell Canada Holdings Inc. (BCH), the company which now owns 100% of Bell Canada. Furthermore, Bell Canada transferred to BCE, at net book value, its investments in BCE Emergis Inc. (BCE Emergis) and CGI Group Inc. (CGI). As a result of the reorganization, a $0.4 billion related party adjustment was charged to retained earnings. The reorganization represents a transfer (combination) of entities under common control and as such the consolidated financial statements have been restated to give retroactive effect to the reorganization. The $1.2 billion of debt and $0.9 billion of equity-settled notes that were issued by Bell Canada were assumed to be non-interest bearing prior to May 31, 1999.

Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and all amounts are in Canadian dollars unless otherwise indicated. Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year presentation.

With respect to the consolidated financial statements of Bell Canada (the Corporation) and its subsidiaries (collectively Bell Canada), the material differences between Canadian and United States GAAP are described and reconciled in Note 18.

New accounting standards

The Consolidated Statement of Cash Flows for the year ended December 31, 1998, has been restated to reflect the new requirements under Section 1540 of the Canadian Institute of Chartered Accountants (CICA) Handbook, *Cash Flow Statements*. For purposes of the cash flow statement, all highly liquid investments with short-term maturities are classified as cash and cash equivalents.

Consolidation

The financial statements of entities which are controlled by the Corporation are consolidated; entities which are jointly controlled by the Corporation, referred to as joint ventures, are accounted for using the proportionate consolidation method; companies, that the Corporation has the ability to significantly influence, are accounted for using the equity method; and investments in other companies are accounted for using the cost method.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets

Capital assets are carried at cost less accumulated depreciation where applicable. Depreciation and amortization of capital assets are generally computed using the straight-line method, with rates based on the estimated useful lives of the assets. In 1999, the composite depreciation rates for plant, machinery and equipment and buildings were 6.21% (7.63% in 1998), 16.69% (13.50% in 1998), and 3.60% (3.31% in 1998) respectively. When depreciable capital assets are retired the carrying value of such assets is charged to accumulated depreciation.

Translation of foreign currencies

Monetary assets and liabilities are translated at the rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates prevailing during the year. Translation exchange gains and losses are reflected in net earnings for the year except for unrealized translation exchange gains and losses on long-term monetary assets and liabilities, such as long-term debt, which are reported as deferred charges or other long-term liabilities and amortized to earnings on a straight-line basis over the remaining lives of the related items.

Derivative financial instruments

Bell Canada uses a combination of derivative financial instruments to manage its interest and foreign exchange risk exposures. Bell Canada does not trade derivative financial instruments for speculative purposes. The costs and benefits, gains and losses, related to these instruments are generally recognized in earnings on the same basis as the foreign exchange gains and losses on the underlying debt instruments, which is usually over the remaining life of the debt. Amounts receivable or payable under interest rate swaps are accrued and recorded as adjustments to interest expense.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the cost of investments over the fair value of the net identifiable assets acquired and is amortized on a straight-line basis,

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

over its estimated useful life, up to a period of 40 years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, Bell Canada's management considers each business segment's financial condition, as well as expected pre-tax earnings, undiscounted cash flows or market-related values. Any permanent impairment in the value of goodwill is written off against earnings in the year the impairment is recognized. Total goodwill amortization charged to operations, including that in equity in net earnings of significantly influenced companies, amounted to $41 million in 1999 and $18 million in 1998.

Postemployment benefits

The Corporation and most of its subsidiaries provide various disability plans, workers' compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement, under specified circumstances. The cost of providing these benefits is charged to earnings in the period in which they are paid.

Postretirement benefits

The Corporation and most of its subsidiaries provide pension and certain health care and life insurance benefits for employees on retirement. The accounting for pension costs is outlined in Note 15. The cost of postretirement benefits, other than pensions, is charged to earnings in the period in which they are paid.

Leases

Where Bell Canada is the lessor, rental revenue from operating leases is recognized as service is rendered to customers. For leases, which qualify as sales-type leases, the sales revenue is recognized at the inception of the lease. Where Bell Canada is the lessee, assets recorded under capital leases are amortized on a straight-line basis using rates based on the estimated useful life of the asset or based on the lease term, as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. In addition, one lease obligation is presented net of a loan receivable (See Note 10).

Income taxes

Bell Canada uses the deferral method of accounting for income taxes. The deferred income tax balances reported on the consolidated balance sheet result from timing differences in the recognition of income and expenses for financial statement and income tax purposes.

Stock-based compensation plans

The stock-based compensation plans offered by Bell Canada are the Employees' Savings Plan (ESP) and the BCE Inc. Long-Term Incentive Stock Option Programs.

The ESP enables employees of Bell Canada and its participating subsidiaries to acquire BCE Inc. common shares through regular payroll deductions plus employer contributions, if applicable. Under the terms of the ESP, employees can choose each year to have up to 10% of their annual earnings withheld to purchase BCE Inc. common shares. Bell Canada contributes up to 2% of the employee's annual earnings. A compensation expense is recognized for Bell Canada's contributions made under the ESP. Compensation expense related to the ESP amounted to $32 million in 1999 ($33 million in 1998).

Under the BCE Inc. Long-Term Incentive Stock Option Programs, options may be granted to officers and other key employees of Bell Canada and of its subsidiaries to purchase common shares of BCE Inc. at a subscription price generally equal to 100% of market value on the last trading day prior to the effective date of the grant. The right to exercise options generally accrues over a period of four years of continuous employment except when a special vesting period is granted. Options are not generally exercisable during the first 12 months after the date of the grant. However, if there is a change of control of BCE Inc., the options may, if an optionee's employment is terminated under certain circumstances, become immediately exercisable. Furthermore, the same result may also occur if, under certain circumstances, BCE Inc. ceases to hold a specific ownership interest in Bell Canada. No compensation expense is recognized when stock options of BCE Inc. are issued to employees.

Simultaneously with the grant of an option, the employee may also be granted, by the employer, the right to a Special Compensation Payment (SCP). The amount of any SCP is equal to the increase in market value of the number of the BCE Inc. shares covered by the SCP from the date of grant of the SCP to the date of exercise of the option to which the SCP is related. The amount of the SCP is accrued over the vesting period. Compensation expense related to the SCP amounted to $87 million in 1999 ($14 million in 1998).

Future accounting changes

The CICA issued the new Handbook Section 3465, *Income Taxes*, which changes the accounting for income taxes. Effective for fiscal years beginning on or after January 1, 2000, the existing deferral method, which focuses on the income statement, will be replaced with the liability method of tax allocation, which focuses on the balance sheet. When the new Handbook section is adopted, deferred income taxes will represent temporary differences between the tax basis of assets and liabilities and their carrying values for accounting purposes. The liability method requires all deferred income tax assets and liabilities to be remeasured at the tax rate that is expected to apply when the temporary differences reverse. The impact of adopting the new Handbook section is not expected to have a material effect on the financial statements of Bell Canada.

The CICA issued the new Handbook Section 3461, *Employee Future Benefits*, which changes the accounting for pension and other types of employee future benefits. Effective for fiscal years beginning on or after January 1, 2000, the new Handbook section requires companies to accrue the costs of postretirement benefits other than pensions over the working lives of employees in a manner similar to pension costs. Under current practice, such costs are charged to income as paid. The new Handbook section also requires a change in the discount rate used to value liabilities and service costs from an estimated long-term rate to a market-based interest rate. The impact of adopting the new Handbook section is expected to result in a charge to retained earnings in excess of $500 million, net of tax. In addition, Bell Canada's pension credit (pre-tax) for 2000 is expected to be between $100 million and $125 million compared with $204 million in 1999.

2. SEGMENTED INFORMATION

Prior to the strategic partnership formed with SBC/Ameritech, Bell Canada managed its operations under one segment which provided telecommunications products and services to its customers. Effective May 31, 1999, Bell Canada was reorganized (See Note 1). As a result, Bell Canada now operates the following business segments which have been segregated based on products and services reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance:

Wireline – which includes the Corporation, Bell Nexxia, Bell ActiMedia Inc., as well as Télébec, Northern Telephone and Northwestel. These entities provide a full range of domestic and international telecommunications services to customers.

Wireless – represents Bell Mobility, which offers cellular, personal and paging communications services, the sale of private radio systems, airline passenger communications and wireless consulting services to customers.

Bell Canada evaluates the performance of its business segments based on their respective earnings before interest, income taxes, depreciation and amortization, pension credit and restructuring and other charges (EBITDA). The following table presents summarized financial information for the years ended December 31, 1999 and 1998:

	1999	1998
Revenues:		
Wireline	**11,464**	11,358
Wireless	**1,119**	1,047
Total consolidated revenues	**12,583**	12,405
EBITDA:		
Wireline	**5,033**	5,121
Wireless	**366**	303
Total EBITDA	**5,399**	5,424
Pension credit	**204**	316
Depreciation and amortization	**(2,440)**	(2,634)
Restructuring and other charges	**(267)**	(608)
Gain on reduction of ownership in a significantly influenced company	**–**	315
Equity in net earnings of significantly influenced companies	**53**	21
Other income (expense)	**78**	(112)
Interest expense	**(796)**	(891)
Income taxes	**(926)**	(745)
Non-controlling interest	**4**	3
Total consolidated net earnings	**1,309**	1,089

The accounting policies of the segments are the same as those described in Note 1, Significant Accounting Policies. Inter-segment sales are made on arm's length terms.

Bell Canada's operations, including substantially all revenues from customers, capital assets and goodwill, are concentrated in Canada. Consequently, the Corporation does not separately disclose non-Canadian geographic information for its wireline and wireless business segments.

3. BUSINESS ACQUISITION

Bell Mobility

On October 22, 1999, Bell Canada increased its ownership interest in Bell Mobility, Canada's largest full-service wireless communications company, from 65% to 100%. The aggregate purchase price was $1,570 million in cash. The acquisition was funded by the issuance of equity-settled notes to BCH. The acquisition was accounted for using the purchase method. The allocation of the purchase price was to tangible assets for $597 million, tangible liabilities for $296 million and goodwill for $1,269 million. Goodwill is being amortized on a straight-line basis over 40 years.

4. RESTRUCTURING AND OTHER CHARGES

In 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. These restructuring programs are expected to be substantially completed by mid 2000. Other charges related mainly to the write-down of the Iridium investment.

In 1998, Bell Canada recorded a pre-tax charge of $608 million ($392 million after tax) representing restructuring and other charges of $102 million and $506 million, respectively. The restructuring charges relate to plans for rationalization of real estate and the integration of business units. Included in the charges were costs relating to lease terminations and associated costs and employee severance. Other charges mainly included a provision for the costs of implementing local service competition and providing local number portability to the extent such costs were estimated not to be recoverable. Also included in other charges were costs relating to the write-down of certain assets and other provisions.

As at December 31, 1999, the remaining balance of the restructuring provision is $130 million ($61 million in 1998). This provision is comprised primarily of unpaid severance payments to the members of the Operator Services group for $60 million, other unpaid incremental costs of $12 million associated with the outsourcing of the Operator Services group, and $30 million for costs relating to the rationalization of real estate.

5. GAIN ON REDUCTION OF OWNERSHIP IN A SIGNIFICANTLY INFLUENCED COMPANY

In 1998, Bell Canada recognized a gain of $315 million on the reduction of its ownership in Teleglobe, from approximately 25% to 20%, as a result of Teleglobe's acquisition of Excel Communications, Inc. (Excel) for an aggregate purchase price of approximately $5.2 billion, satisfied through the issuance of common shares, of which approximately $4.0 billion was allocated to goodwill and is being amortized over 40 years.

6. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes follows:

	1999	1998
Earnings before income taxes and non-controlling interest	**2,231**	1,831
Statutory income tax rates in Canada	**42.3%**	42.4%
Income taxes at Canadian statutory rates	**944**	776
Gain on reduction of ownership in a significantly influenced company	**–**	(134)
Gain on disposition of investments	**(27)**	–
Equity in net earnings of significantly influenced companies	**(22)**	(9)
Large corporations tax	**11**	6
Other	**20**	106
Total income taxes	**926**	745

Details of income tax expense:

	1999	1998
Current	**962**	913
Deferred	**(36)**	(168)
	926	745

7. INVESTMENTS IN SIGNIFICANTLY INFLUENCED AND OTHER COMPANIES

Investments are accounted for using the equity method, except where otherwise noted.

	Ownership (%)			
At December 31	1999	1998	1999	1998
Teleglobe (a)	**23.1**	20.0	**1,601**	1,308
Aliant (b)	**41.2**	–	**456**	–
Bruncor (b)	**–**	44.8	**–**	158
MT & T (b)	**–**	34.4	**–**	132
Manitoba Telecom Services Inc. (MTS) (c)	**20.8**	–	**336**	–
Other, at equity			**48**	144
Investments, at cost			**56**	90
Total investments in significantly influenced and other companies (d)			**2,497**	1,832

(a) In 1999, Bell Canada increased its ownership interest in Teleglobe from 20% to 23% for an aggregate purchase price of $312 million. Goodwill recorded on the acquisition amounted to $111 million and is being amortized over 20 years on a straight-line basis.

On November 10, 1998, Teleglobe acquired Excel (See Note 5). In connection with the closing of the transaction, Bell Canada exercised an existing option and acquired approximately 5.4 million Teleglobe common shares for an aggregate purchase price of approximately $218 million. In addition, in 1998, Bell Canada purchased, on the open market, common shares of Teleglobe and Excel for an aggregate purchase price of $518 million.

(b) On May 31, 1999, Bruncor, MT&T, and NewTel (NewTel was consolidated up to May 31, 1999) were combined under one company, Aliant.

(c) In the first quarter of 1999, Bell Canada acquired 20% of MTS for an aggregate purchase price of $339 million. Goodwill recorded on the acquisition amounted to $189 million and is being amortized over 20 years on a straight-line basis.

(d) The goodwill implicit in significantly influenced companies amounted to $333 million at December 31, 1999 ($47 million in 1998).

8. CAPITAL ASSETS

At December 31	1999		1998	
	Cost	Net book value	Cost	Net book value
Plant	25,407	10,095	25,530	10,107
Machinery and equipment	4,643	1,418	4,490	1,938
Buildings	1,871	995	1,854	947
Plant under construction	850	850	708	708
Land	67	67	74	74
Other	110	86	141	127
	32,948	13,511	32,797	13,901

Depreciation and amortization of capital assets for 1999 amounted to $2,426 million ($2,611 million in 1998). Retirements charged to accumulated depreciation amounted to $1,207 million in 1999 ($2,220 million in 1998).

In the first quarter of 1998, Bell Canada sold commercial properties to TrizecHahn Corporation for net proceeds of $753 million.

9. SUPPLEMENTARY INFORMATION

	1999	1998
Balance Sheet		
Deferred charges		
Deferred pension asset (See Note 15)	1,604	1,346
Unrealized foreign currency losses, net of amortization	87	170
Amounts receivable under cross currency contracts	–	51
Other	204	199
	1,895	1,766
Debt due within one year		
Bank advances	12	42
Notes payable – including $295 million in 1999 ($150 million in 1998) due to related companies	306	347
Long-term debt due within one year (See Note 10)	782	642
	1,100	1,031
Statement of Cash Flows		
Interest paid	769	896
Income taxes paid	670	530

10. LONG-TERM DEBT

At December 31			1999	1998
		Weighted average rate of interest %		
Wireline				
Corporation				
Debentures and notes (a)				
Repaid in	1999	9.60	–	600
Due	2000	9.42	511	538
	2001	7.25	150	150
	2002	7.58	300	300
	2003	6.77	472	534
	2004	10.88	200	200
	2005-2014	8.36	2,677	1,662
	2015-2054	9.21	1,425	1,225
			5,735	5,209
Subordinated debentures				
Due 2026-2031		8.21	275	275
Due to related parties (b)			1,500	4,058
Other (c)			111	73
Total – Corporation			7,621	9,615
Other wireline companies			381	681
Total – Wireline			8,002	10,296

(a) Debentures and notes include US $400 million maturing in 2006 and 2010; 300 million Swiss francs, due 2003 swapped into US dollar obligations; and 150 million German marks, due 2000, swapped into Canadian dollar obligations. In addition, $750 million of long-term debt includes call options permitting early repayment of the principal amounts upon payment of certain premiums.

(b) Due to related parties represents, in 1999, senior unsecured notes, due to BCH, at an interest rate of 5.85% maturing May 31, 2001. Bell Canada has the option to prepay, at any time, all or any portion of the notes in cash without notice or penalty. In 1998, due to related parties comprised $3,121 million due to BCE and $937 million due to BCH. Interest expense, for 1999, from Bell Canada to BCE and BCH totalled $114 million ($153 million in 1998).

(c) Other includes an obligation under a capital lease of $45 million, net of a loan receivable of $246 million. This obligation resulted from an agreement entered into in 1999, whereby Bell Canada sold and leased back telecommunication equipment for proceeds of $316 million. A portion of these proceeds was invested in an interest bearing loan receivable.

10. LONG-TERM DEBT (continued)

At December 31	1999	1998
Wireless		
6.55% Series 1 senior unsecured notes (US $150 million) due 2000, swapped to Canadian dollar principal and interest of 7.99%	**216**	230
7.3% Series E senior unsecured debentures due 2007	**150**	150
6.55% Series F senior unsecured debentures due 2008	**150**	150
Other	**13**	14
Total – Wireless	**529**	544

At December 31	1999	1998
Total long-term debt	**8,531**	10,840
Less: due within one year (See Note 9)	**782**	642
Long-term debt	**7,749**	10,198

Long-term debt maturities during each of the next five years are summarized below:

Years ending December 31	2000	2001	2002	2003	2004
Wireline	563	1,668	320	493	207
Wireless	219	3	3	4	–
Total maturities	782	1,671	323	497	207

At December 31, 1999, unused bank lines of credit, for general corporate purposes and to support commercial paper borrowings, generally at the banks' prime rate of interest, amounted to approximately $1.6 billion.

11. FINANCIAL INSTRUMENTS

Risk management

Bell Canada uses cross currency swaps, forward contracts and interest rate swaps to manage its foreign currency and interest rate positions associated with its debt instruments (See Note 10). The terms of these derivative contracts generally match the terms associated with the underlying debt instruments. These contracts are generally used to reduce financing costs and to diversify Bell Canada's access to capital markets.

Credit risk

Bell Canada is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. Bell Canada deals only with highly-rated financial institutions and monitors the credit risk and credit standing of counterparties on a regular basis. Bell Canada manages its exposure so that there is no substantial concentration of credit risk resulting from cross currency swaps, forward contracts and interest rate swaps.

In addition, Bell Canada is exposed to credit risk from customers. However, Bell Canada has a large number of diverse customers which minimizes concentration of this risk. The introduction of competition in the local exchange market may increase credit risk.

Currency exposures

At December 31, 1999, principal amounts to be received under cross currency contracts include SF 300 million, DM 150 million and US $239 million. At December 31, 1999, principal amounts owed under cross currency contracts include US $200 million and CDN $486 million.

Interest rate exposures

Long-term debt is mainly issued at fixed interest rates. Bell Canada has entered into interest rate swaps to convert fixed interest rate debt (totalling $150 million) to floating interest rate debt.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

11. FINANCIAL INSTRUMENTS (continued)

At December 31, 1999 and 1998, the carrying value of all financial instruments approximates fair value with the following exceptions:

At December 31	1999		1998	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cross currency contracts (a)	10	6	51	65
Liabilities				
Long-term debt	8,531	9,165	10,840	12,348
Cross currency contracts (a)	54	34	16	18

(a) Amounts receivable or payable under cross currency contracts are included in current assets, deferred charges or liabilities, as appropriate.

Sale of accounts receivable

Under an agreement effective October 14, 1997, Bell Canada sold accounts receivable for aggregate cash proceeds of $650 million. Pursuant to the agreement, the purchaser will use the funds from collections to purchase further receivables from Bell Canada until the expiration of the agreement on October 6, 2002.

12. PREFERRED SHARES

Authorized

The articles of incorporation of the Corporation provide for an unlimited number of Class A Preferred Shares. The articles authorize the directors of the Corporation to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

Authorized and outstanding

The following table provides a summary of the principal terms and conditions relating to the Corporation's authorized and outstanding series of Class A Preferred Shares. The detailed terms and conditions of such shares are set forth in the Corporation's articles of incorporation.

At December 31	1999		1998	
	Number of shares	Stated capital	Number of shares	Stated capital
Non-convertible Class A preferred shares (a):				
Retractable preferred shares				
Series 10 (b)	4,000,000	100	4,000,000	100
Other retractable preferred shares		16		28
		116		128
Perpetual preferred shares (c)				
Series 11	300	150	300	150
Series 12	400	200	400	200
Series 13	290	145	290	145
Series 14	270	135	270	135
		630		630

(a) All preferred shares are non-voting and redeemable at the Corporation's option.

(b) The holders of Cumulative Redeemable Retractable Reset Class A Preferred Shares Series 10 are entitled to fixed cumulative annual dividends at the rate of $1.86 per share.

The Series 10 Preferred Shares are not redeemable prior to August 15, 2000. On or after August 15, 2000, the Series 10 Preferred Shares are redeemable at $25 per share together with accrued and unpaid dividends. The Series 10 Preferred Shares are retractable at the option of the holders on August 15, 2000, at a price of $25 per share together with accrued and unpaid dividends.

(c) The holders of Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 11, 12, 13 and 14 are entitled to annual cumulative dividends at rates of 5.04%, 4.64%, 5.04% and 4.62% of the stated capital of such shares, respectively, until March 30, 2000, October 30, 2000, March 30, 2000, and September 29, 2000, respectively, at which times, the dividend rates will be reset. Thereafter, the dividend rates of the Series 11, 12, 13 and 14 Preferred Shares may be reset from time to time pursuant to the terms and conditions of each series.

The Series 11, 12, 13 and 14 Preferred Shares are redeemable at any time at $500,000 per share together with accrued and unpaid dividends. The Series 11, 12, 13 and 14 Preferred Shares are not retractable at the option of the holders. The Series 11 and 13 Preferred Shares were redeemed by Bell Canada on January 11, 2000 (See Note 19).

13. EQUITY-SETTLED NOTES

At December 31	1999	1998
8.22% Junior Note 1 unsecured obligation due 2034 (a)	**923**	923
6.00% Junior Note 2 unsecured obligation due on demand (b)	**1,570**	–
	2,493	923

(a) Junior Note 1 is payable to BCH and ranks junior to all present and future indebtedness of Bell Canada. Subject to certain conditions, Bell Canada has the option to prepay, at any time, all or any portion of the note in cash without notice or penalty and may elect, at any time, to satisfy its obligation by issuing to BCH common shares having an aggregate value equal to the amount otherwise payable to BCH on such date.

(b) Junior Note 2 is payable to BCH and ranks junior to all present and future unsubordinated indebtedness of Bell Canada. The note bears interest at 6% up to November 30, 2000. Thereafter, the interest rate shall be reset annually on November 30 of each year and shall be equal to the Canadian one-year benchmark bond rate plus 0.40%. Subject to certain conditions, Bell Canada has the option to prepay, at any time, all or any portion of the note in cash without notice or penalty and may elect, at any time, to satisfy its obligation by issuing to BCH common shares having an aggregate value equal to the amount otherwise payable to BCH on such date.

14. COMMON SHARES

Authorized: an unlimited number of common shares.

At December 31	1999		1998	
	Number of shares	**Stated capital**	Number of shares	Stated capital
Outstanding	**343,220,418**	**4,498**	307,662,568	1,422

During 1999, 35,557,850 shares were issued to BCH as part of the SBC/Ameritech transaction (See Note 1).

In 1998, Bell Canada reclassified an amount of $23 million from contributed surplus to retained earnings. The contributed surplus represents the consideration received in excess of the then par value of common shares issued before the Corporation was continued under the Canada Business Corporations Act on April 21, 1982.

15. PENSIONS

The Corporation and most of its significant subsidiary companies maintain non-contributory defined benefit plans that provide for pensions for substantially all their employees based on length of service and rate of pay. Bell Canada's funding policy is to make contributions to its pension funds based on various actuarial cost methods as permitted by pension regulatory bodies. The companies are responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages.

The pension credit and the projected plan benefits are based on management's best estimates including long-term rate of return on the pension asset portfolio, long-term interest rates and long-term salary escalation rates. Variances between such estimates and actual experience, which may be material, are amortized over the average remaining service lives of the employees. In addition, included in the restructuring charges are curtailment gains associated with employee severance.

The following table sets forth the consolidated financial position of the pension plans and Bell Canada's net pension asset:

At December 31	1999	1998
Plan assets at market value	**11,493**	10,645
Actuarially projected plan benefits		
Accumulated plan benefits	**7,433**	6,505
Effect of salary projections	**849**	692
Projected plan benefits	**8,282**	7,197
Plan assets in excess of projected plan benefits	**3,211**	3,448
Unrecognized net experience gains	**(1,723)**	(2,226)
Unrecognized net assets existing at January 1, 1987	**(30)**	(41)
Unrecognized prior period costs	**83**	100
Net pension asset reflected on the consolidated balance sheet	**1,541**	1,281
Deferred pension asset included in deferred charges (See Note 9)	**1,604**	1,346
Pension obligations, included in other long-term liabilities	**(63)**	(65)
Net pension asset	**1,541**	1,281

15. PENSIONS (continued)

The components of Bell Canada's pension credit are as follows:

	1999	1998
Service cost – benefits earned	**142**	135
Interest cost on projected plan benefits	**579**	589
Expected return on plan assets	**(799)**	(851)
Net amortization and other	**(126)**	(189)
Pension credit	**(204)**	(316)

16. RELATED PARTY TRANSACTIONS

All transactions with related parties took place in the normal course of business.

	1999	1998
Nortel Networks Corporation (Nortel Networks) (a)		
Purchase of equipment and supplies	**1,054**	1,041
CGI (b)		
Purchase of equipment and services	**514**	283

(a) Nortel Networks is a significantly influenced company of BCE.
(b) CGI is a joint venture of BCE.

At December 31, 1999, accounts receivable included $196 million ($107 million in 1998) from parent, affiliated and significantly influenced companies. Accounts payable and accrued liabilities included $493 million ($736 million in 1998) due to parent, affiliated and significantly influenced companies.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At December 31, 1999, the future minimum lease payments under capital leases were $83 million. At December 31, 1999, the future minimum lease payments under operating leases with initial non-cancellable lease terms in excess of one year were $164 million in 2000, $146 million in 2001, $135 million in 2002, $121 million in 2003, $109 million in 2004 and $643 million thereafter. Rental expense applicable to operating leases for the year 1999 was $367 million ($276 million in 1998).

Effective July 1, 1998, under the terms of a ten-year outsourcing agreement, a wholly-owned subsidiary of CGI is the preferred provider of Bell Canada's required information systems and information technology services. Bell Canada's minimum commitment between January 1, 2000 and June 30, 2001 is approximately $400 million. Beyond this period the amount of these expenditures will depend upon Bell Canada's business strategies and directions and the associated information systems and information technology requirements.

Litigation

In the normal course of operations, Bell Canada becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at December 31, 1999, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on Bell Canada's consolidated financial position or results of operations.

Uncertainty due to the Year 2000 issue (Year 2000 readiness disclosure)

The Year 2000 issue arose because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems could have recognized the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 was processed. In addition, similar problems could have arisen in some systems which used certain dates in 1999 to represent something other than a date. Although the rollover to the Year 2000 has occurred, it is not possible to conclude, at this point in time, that all aspects of the Year 2000 issue that may affect Bell Canada, including those related to customers, suppliers, or other third parties, have been fully resolved.

18. RECONCILIATION OF EARNINGS REPORTED IN ACCORDANCE WITH CANADIAN GAAP WITH UNITED STATES GAAP

The material differences between Canadian and United States GAAP affecting the consolidated financial statements of Bell Canada are reconciled in the table below:

	1999	1998
Net earnings applicable to common shares – Canadian GAAP	**1,242**	1,056
Adjustments		
Postretirement benefits other than pensions (a)	**(42)**	(43)
Postemployment benefits (b)	**(10)**	(19)
Pension credit (c)	**(31)**	(13)
Foreign exchange (d)	**53**	(21)
Gain on exchange of investments (e)	**99**	–
Gain on reduction of ownership in a significantly influenced company (f)	**–**	(314)
Income taxes (g)	**(2)**	(13)
Other	**(18)**	–
Net earnings applicable to common shares – U.S. GAAP	**1,291**	633
Other comprehensive earnings items:		
Change in currency translation adjustment	**(2)**	3
Comprehensive earnings – U.S. GAAP	**1,289**	636

The cumulative effect of differences between Canadian and United States GAAP is to reduce retained earnings by $681 million as at December 31, 1999 and $730 million as at December 31, 1998. In addition, United States GAAP requires that the equity-settled notes (See Note 13) of $2,493 million ($923 million in 1998) be presented as a liability. Under Canadian GAAP, the equity-settled notes are presented in shareholders' equity.

(a) Postretirement benefits other than pensions

Under Canadian GAAP, the costs of postretirement benefits other than pensions, such as health and life insurance benefits for retirees, are charged to earnings when paid. United States GAAP requires the accrual of actuarially determined postretirement benefit costs as active employees earn these benefits.

In reporting the impact of the adoption of Financial Accounting Standards Board Statement No. 106, *Employers' Accounting for Postretirement Benefits other than Pensions*, the transitional obligation (i.e. employees' service prior to adopting the new method of accounting effective January 1, 1993) of most of Bell Canada's telecommunications subsidiary and significantly influenced companies is being amortized over 20 years. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $311 million.

(b) Postemployment benefits

Under Canadian GAAP, the costs of postemployment benefits are recognized as the claims are paid. United States GAAP requires the accrual of the postemployment benefits at the occurrence of an event that renders an employee inactive. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $125 million.

(c) Pension credit

The difference arises mainly from variations in methodology for calculating pension expense, curtailments and settlements under Canadian GAAP compared with United States GAAP. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $45 million.

(d) Foreign exchange

Under Canadian GAAP, unrealized foreign exchange translation gains and losses on long-term monetary assets and liabilities are deferred and amortized over the remaining lives of the related items. Under United States GAAP, the translation gains and losses are reported in earnings immediately. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $64 million.

(e) Gain of exchange of investments

On May 31, 1999, Bruncor, MT&T and NewTel combined their businesses to form Aliant. As a result, Bell Canada exchanged the ownership interest it had in Bruncor (45%), MT&T (34%) and NewTel (55%) for a 42% interest in Aliant (See Note 7). For United States GAAP purposes, the transaction represents, for Bell Canada, a series of non-monetary exchanges. Generally, exchanges of similar productive assets are accounted for at carrying value and no gain or loss is recognized. However, as a consolidated investment is not considered a productive asset, the exchange of Bell Canada's interest in NewTel was recorded at fair value. The cumulative effect of this difference is to increase retained earnings as reported under Canadian GAAP by $99 million.

(f) Gain on reduction of ownership in a significantly influenced company

Under Canadian and United States GAAP, a gain on reduction of ownership in a significantly influenced company is calculated in a similar manner. However, Canadian and United States GAAP differences will cause the underlying equity value of a subsidiary or a significantly influenced company to be different; therefore, the resulting gain will be different. Furthermore, under United States GAAP, if certain conditions are met, the pooling of interest method can be used to account for an acquisition. Under Canadian GAAP, the pooling of interest method can only be used when none of the parties involved can be identified as the acquirer. Accordingly, under United States GAAP, the purchase of Excel by Teleglobe in 1998 (See Note 5) would have been accounted for using the pooling of interest method and the gain on reduction of ownership and goodwill referred to in Note 5 would not have been reported. The cumulative effect of this difference is to reduce retained earnings as reported under Canadian GAAP by $314 million.

18. RECONCILIATION OF EARNINGS REPORTED IN ACCORDANCE WITH CANADIAN GAAP WITH UNITED STATES GAAP (continued)

(g) Income taxes

Under United States GAAP, Bell Canada adjusted its net deferred income tax liability for all temporary differences between the carrying amounts of assets and liabilities, including investments in significantly influenced companies, for financial reporting purposes and the amounts used for income tax purposes, computed based on the rates and provisions of the enacted tax law. The cumulative effect of this difference is to increase retained earnings as reported under Canadian GAAP by $97 million.

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19. SUBSEQUENT EVENTS

Acquisition of Aliant

In January 2000, BCE successfully completed the acquisition of 15.8 million outstanding common shares, for $27.50 per share, of Aliant. This brings BCE Inc.'s and Bell Canada's total ownership in Aliant to 54% (approximately 41% held by Bell Canada and approximately 13% held by BCE Inc.), or approximately 53% on a fully diluted basis. Certain put and call options have been put in place which, if exercised, will transfer the shares acquired by BCE Inc. to Bell Canada on agreed upon terms.

Issue and Redemption of Preferred Shares by Bell Canada

On January 11, 2000, Bell Canada issued to the public 4,200,000 Cumulative Redeemable Class A Preferred Shares Series 15 (Series 15 Preferred Shares) at a price of $25 per share for an aggregate price of $105 million. On the same date, an additional 11,800,000 Series 15 Preferred Shares were issued at the price of $25 per share, for an aggregate price of $295 million, to the holders of Bell Canada's $150 million Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 11 (Series 11 Preferred Shares) and $145 million Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 13 (Series 13 Preferred Shares). In addition, on January 11, 2000, Bell Canada redeemed the Series 11 Preferred Shares and the Series 13 Preferred Shares for an aggregate purchase price of $295 million.

Terence James Jarman
Oakville, Ontario
Vice-Chair – Corporate
Director since January 26, 2000 and member of the Management Resources and Nominating Committee.

James Samuel Kahan
San Antonio, Texas
Senior Vice-President Corporate Development
SBC Communications Inc.
Director since October 1999 and member of the Management Resources and Nominating Committee.

Brian Michael Levitt
Montréal, Québec
Corporate Director
Director since July 1999 and Chairman of the Management Resources and Nominating Committee.
Director of BCE Inc.

Jean Claude Monty, C.M.
Montréal, Québec
Chairman and Chief Executive Officer of Bell Canada.
President and Chief Executive Officer, BCE Inc.
Director since October 1997. Chairman of the Board of Bell ExpressVu Inc. and Teleglobe Inc., Director of Bell Canada International Inc., CGI Group Inc. and Nortel Networks Corporation.

Edward Arnold Mueller
San Antonio, Texas
President – International Operations
SBC Communications Inc.
Director since November 1999 and member of the Audit Committee.

James Edward Newall, O.C.
Calgary, Alberta
Chairman of the Board, NOVA Chemicals Corporation
Director since May 1998 and Chairman of the Audit Committee. Director of BCE Inc.

Guy Saint-Pierre, O.C.
Montréal, Québec
Chairman of the Board, SNC-Lavalin Group Inc.
Director since April 1999 and member of the Audit Committee.
Director of BCE Inc.

Charles Wesley Moore Scott
Toronto, Ontario
Chief Corporate Officer, BCE Inc.
Director since June 1999.

John William Sheridan
Toronto, Ontario
Vice-Chair – Market Groups
Director since January 26, 2000 and member of the Audit Committee.

Paul Mathias Tellier, P.C., C.C., Q.C.
Westmount, Québec
President and Chief Executive Officer
Canadian National Railway Company
Director since March 1996 and member of the Management Resources and Nominating Committee.
Director of BCE Inc.

*As at February 23, 2000

corporate officers*

Pierre J. Blouin
President, Bell Mobility

Marc Bouchard
President, Bell Nexxia

Michael T. Boychuk
Vice-President and Treasurer

Martine Corriveau-Gougeon
Senior Vice-President – Strategic Initiatives

Bernard A. Courtois
Chief Strategy Officer

David R. Cox
Chief Information Officer

Gary M. Davis
Vice-President and Corporate Controller

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President, Bell ActiMedia

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Tomasz S. Hope
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Terence J. Jarman
Vice-Chair – Corporate

Sylvie Lalande
Chief Communications Officer

Guy Marier
President – Bell Québec

Timothy E. McGee
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Jean C. Monty
Chairman and Chief Executive Officer

Robert T. Mosey
Senior Vice-President – Business, Sales and Service

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Ronald Reising
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Pierre Shedleur
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Karen H. Sheriff
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David A. Southwell
President – Network Operations

Georgina Wyman
Chief Human Resources Officer

*As at February 23, 2000

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B.M. Levitt – Chairman

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P.M. Tellier

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

unaudited	1999	1998	1997	1996	1995	1994
Selected consolidated financial data ($ millions)						
Total operating revenues	**12,583**	12,405	12,309	10,314	9,667	9,314
Net operating revenues	**2,896**	2,498	2,677	2,310	2,098	2,344
Net earnings before extraordinary item	**1,309**	1,089	917	734	513	739
Net earnings applicable to common shares before extraordinary item	**1,242**	1,056	881	694	472	696
Extraordinary item (net of tax)	**–**	–	(2,870)	–	–	–
Net earnings (loss) applicable to common shares	**1,242**	1,056	(1,989)	694	472	696
Dividends on common shares	**868**	765	764	714	730	748
EBITDA	**5,399**	5,424	5,352	4,814	4,316	4,532
EBIT	**3,027**	2,722	2,714	2,421	2,105	2,333
Total assets	**21,829**	19,648	18,517	22,896	22,769	22,275
Long-term debt (including current portion)	**8,531**	10,840	10,439	10,617	11,027	10,286
Retractable preferred shares	**116**	128	129	117	282	407
Perpetual preferred shares	**630**	630	630	630	630	610
Equity-settled notes	**2,493**	923	832	824	815	806
Common shareholders' equity	**5,553**	2,130	1,816	4,581	4,616	4,889
Capital expenditures	**2,499**	2,629	2,252	2,105	1,912	1,933
Financial ratios[(i)]						
Per cent return on average common equity	**19.3**	22.1	14.4	9.8	7.2	9.4
Per cent return on average total capital	**8.4**	8.9	6.3	4.7	3.5	4.7
EBITDA/Interest	**7.7**	8.1	7.5	6.2	5.6	6.0
EBIT/Interest	**4.5**	4.6	3.8	3.1	2.7	3.1
Fixed charge coverage	**4.4**	4.4	3.6	3.0	2.6	2.9
Debt to EBITDA	**1.7**	1.5	1.6	1.8	2.0	1.9
Cash flow from operating activities as a per cent of net capital expenditures	**1.1**	1.3	N/A	N/A	N/A	N/A
Debt as a per cent of total capital	**0.5**	0.5	0.6	0.5	0.5	0.5
Other data						
Network access services (thousands)	**11,579**	11,556	11,221	10,869	10,593	10,300
Conversation minutes (millions)	**13,830**	11,664	10,703	10,855	10,662	10,673
Number of employees	**43,995**	46,031	46,719	52,151	55,942	58,820
Salaries and wages (excl. workforce reduction costs) (millions)	**2,391**	2,459	2,555	2,648	2,710	2,616

(i) Ratios are calculated on a baseline basis (earnings excluding special items); and, the $3.1 billion debt discussed on page 15 and the equity-settled notes are treated as common shareholders' equity.
N/A not available

QUARTERLY FINANCIAL DATA

($ millions)	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
unaudited	1999	1998	1999	1998	1999	1998	1999	1998
Total operating revenues	**3,276**	3,233	**3,184**	3,101	**3,101**	3,065	**3,022**	3,006
Net operating revenues	**841**	834	**840**	795	**469**	117	**746**	752
Net earnings (loss)	**432**	581	**386**	313	**193**	(93)	**298**	288
Net earnings (loss) applicable to common shares	**404**	573	**367**	305	**181**	(102)	**290**	280
EBITDA	**1,393**	1,420	**1,394**	1,378	**1,297**	1,295	**1,315**	1,331

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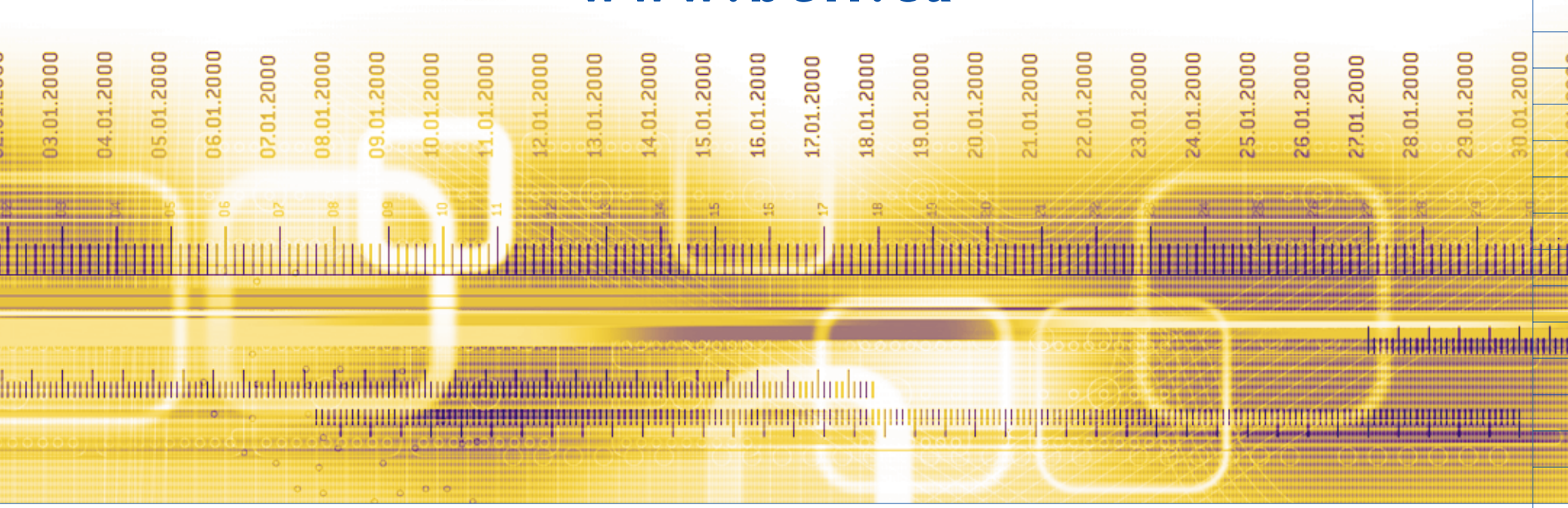

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